1998 Annual Report

Corporate Profile

ATI Technologies Inc. is the world's largest supplier of affordable, high-quality video, 2D/3D graphics and multimedia hardware and software products for the personal computer. ATI designs, manufactures and markets innovative and award-winning multimedia solutions and graphics accelerator components and boards. The Company enjoys strong working relationships with strategic technology partners, distributors, retailers and resellers worldwide.

Founded in 1985, ATI employs more than 1,400 people with offices in Canada, the United States, Germany, France, the United Kingdom, Ireland, Barbados, Malaysia, Hong Kong and Japan. ATI is a public company whose shares trade on The Toronto Stock Exchange under the symbol "ATY".

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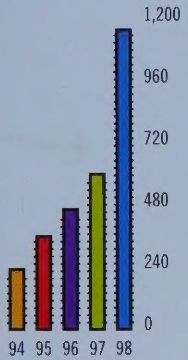
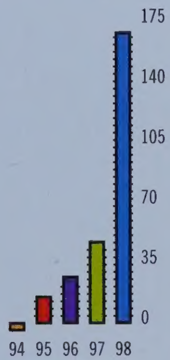
Financial Highlights

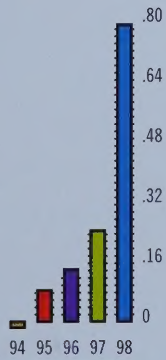
Thousands of Canadian dollars, except per share amounts	1998	1997	% Change
Statement of Operations			
Sales	$ 1,156,921	$ 602,839	91.9 %
Net income	$ 168,424	$ 47,689	253.2 %
Net income per share			
Basic	$ 0.86	$ 0.25	244.0 %
Fully diluted	$ 0.79	$ 0.24	229.2 %
Balance Sheet			
Working capital	$ 297,678	$ 152,435	95.3 %
Total assets	$ 597,208	$ 291,735	104.7 %
Shareholders' equity	$ 389,309	$ 206,000	89.0 %
Other			
Current ratio	2.49:1	2.89:1	(13.8)%
Cash flow from operations	$ 34,650	$ 28,534	21.4 %
Return on average equity	56.6%	26.9%	110.4 %
Closing share price	$ 16.65	$ 5.83	185.6 %
Market capitalization	$ 3,316,251	$ 1,130,039	193.5 %



Sales
($ MILLIONS)



Net Income (Loss)
($ MILLIONS)



Fully Diluted Net Income (Loss) Per Share
($)

Share Price at Month End Fiscal 1998

Operating Highlights

OEM Design Wins

Consumer Market

Apple Computer, PowerMac G3

Compaq, Presario 4840, 4850, 4860, 4640 and 4660

Compaq, Presario 5000 and 5100 Series

Compaq, Presario 5600 Series

Dell Computer Corporation, Dimension XPS R and D Series

Fujitsu, DeskPower Series

Hewlett-Packard Company, HP Pavilion PCs 3265, 8250, 8275 and 8290

IBM Aptiva L Series

Sony, PCV-210 and PCV-230

Sony, VAIO PCV-220, PCV-240

Toshiba, Vision Connect

Commercial Market

Acer, AcerPower5400, AcerMate 3000, AcerEntra 3000, Acer Aspire 5000 and AcerPower T6400

AST Computer, Bravo MS AGP

Compaq, Deskpro EN and EP Series

Dell Computer Corporation, OptiPlex G1 and E1

Dell Computer Corporation, OptiPlex GX1, OptiPlex NX1 Net PC and OptiPlex GXa

Fujitsu, FMV Series

Gateway, E-4200 and E-3110

Hewlett-Packard Company, HP Vectra VE and HP Brio

Hitachi VisionDesk

NCR, NCR 3261 and 3271

NEC PowerMate Enterprise Series

Toshiba, Equium 7100 and 7000

Workstations

Sun Microsystems Computers, Ultra 5 and Ultra 10 Workstations

Mobile Market

Apple Computer, Macintosh PowerBook G3 Series

Fujitsu Medoc, LifeBook 990Tx2 and FMV-6266NA8/X

HP, OmniBook 7100

NEC, LaVie

NEC, VersaPro NX Notebook Series

Samsung

Siemens Nixdorf, SCENIC Mobile 800

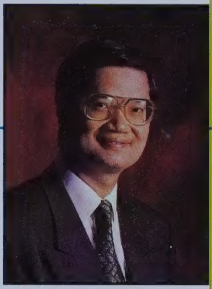
Consumer Electronics

General Instrument, DCT-5000+

NEC, CerebNX HomePC

See www.atitech.com for a complete listing of the design win announcements made in fiscal 1998.

Message to Shareholders



K.Y. Ho
President and CEO

Fiscal 1998 was a year of record accomplishments for ATI Technologies Inc. (ATI).

We are proud that ATI rose to a new level of success. ATI is now ***the*** world leader in our industry and ranks among the few truly outstanding Canadian technology companies.

Fiscal 1998 was a landmark year for ATI. We surpassed the $1 billion revenue threshold and became the top graphics supplier in the world. The year's success is attributed to ATI's long-range strategy of identifying major industry shifts or key inflection points. We align our energies to develop and enhance core graphics and multimedia hardware and software technologies that capitalize on those inflection points; thereby seizing market opportunities and increasing market share.

The Year in Review

Key measures of our success in 1998 were increased design wins and penetration in the desktop marketplace, where ATI's RAGE technology populates systems of the world's Top 15 Original Equipment Manufacturers (OEMs). ATI chips and boards can be found across the entire product lines of many of these PC manufacturers, in both the commercial and consumer sectors. We were also successful in gaining a foothold in the growing notebook market, announcing numerous design wins throughout the year. We announced several successful graphics initiatives in emerging market opportunities, such as set-top boxes and flat panel displays. ATI experienced solid sales growth across all geographic regions, expanding to historic levels in Europe, and bucking the downward trend in Asia-Pacific. Board production volumes surpassed one million per month several times throughout the year.

Our products garnered more industry awards in fiscal 1998 than at any other time in our history. These cumulative accomplishments led several industry research firms, including Mercury Research, International Data Corporation (IDC) and Jon Peddie Associates, to acclaim ATI as the world leader in 3D graphics.

Financial Accomplishments

The Company had an outstanding year of financial growth, exceeding virtually all of our internal targets. In fact, ATI has achieved top line compound growth of 49% over the last four years, making ATI the third largest Canadian-owned and managed technology organization.

- Sales increased 92% over fiscal 1997. This marks the first time sales have broken the billion dollar level with revenues of $1,156.9 million; exports also reached a billion dollars for the first time in ATI's history;

- Gross margins increased 4.9 percentage points year-over-year to 37%;
- Net income climbed over 253% to $168.4 million. Net income per share also rose 229% to $0.79 per share;
- ATI stock split 4 to 1;
- Market capitalization as of August 31, 1998 soared from $1.1 billion at previous fiscal year end to more than $3.3 billion.

Key Inflection Points

In the graphics industry, leadership goes to those that anticipate and capitalize on key technology shifts. Throughout its history, ATI has been able to identify these key inflection points and to design and develop hardware and software that leads the industry. Over time, the graphics market has shifted from EGA to VGA; to the introduction of graphics accelerators; then controllers; the integration of video; then the move from 2D graphics to 3D.

One of the latest key inflection points was the Accelerated Graphics Port (AGP). In 1998, ATI reinforced its leadership in AGP, while helping to make this specification the preferred bus for graphics data. ATI worked closely with Intel and other industry players to ensure that ATI's AGP controllers were the most complete, cost-effective AGP solutions on the market.

ATI captured the majority of the AGP-related design wins in 1998, becoming the first graphics company in the world to ship 10 million AGP controllers. ATI also was the first in our industry to ship a graphics controller that adheres to the full AGP 2X specification. The outstanding results of ATI's introduction of AGP products demonstrates that we are on the right track and the Company will continue to develop further AGP technology products.

Because technology and products drive our business, it is important that we have the critical mass of engineering and research and development expertise. We have significantly increased this capability through two strategic acquisitions in the United States.

In December 1997, ATI acquired the graphics design assets of Tseng Labs, Inc., along with its 40-person engineering team. In October 1998, ATI announced its intent to acquire Chromatic Research, Inc., which develops system-on-a-chip technology for multimedia that will be ideal for sub-$500 computers, set-top boxes and other consumer electronics devices. These additions to our already impressive product development team expand our concurrent development efforts and will permit us to continue to meet the needs of emerging growth markets.

Looking Forward

ATI has a wealth of experience from which to draw and the infrastructure to support its growth efforts in our traditional business, and in those markets that are just emerging.

At the component level, we will continue to aggressively pursue growth in the consumer and commercial PC markets, where ATI has the most design wins with the world's Top 10 computer manufacturers. In August 1998, ATI gave OEMs, industry analysts and the news media a glimpse at the future of graphics acceleration with the announcement of the Company's newest chip, the RAGE 128. The RAGE 128 chip represents "a new breed of speed" in a fully integrated 128-bit graphics and multimedia accelerator that offers leading-edge performance in all three vectors of visual computing: 3D, 2D, and video.

ATI gives OEMs and consumers the most integrated, value-driven board solutions on the market. ATI's newest set of boards based on the RAGE 128 chip will further expand market opportunities. These performance boards will offer a range of solutions to satisfy the graphics requirements of the PC gamer, the notebook user and the computer-aided design (CAD) workstation professional.

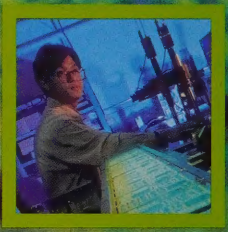
With ATI's core technology expertise, the Company is also positioned as a major player in emerging graphics-related technologies: Digital Versatile Disc (DVD), flat panel displays, set-top box technology, the sub-$1,000 PC, and of course AGP. In August 1998, ATI announced its initial entry into the consumer electronics space with a design win with General Instruments for its advanced interactive digital cable set-top terminal. This design win is a demonstration of ATI's planned diversification into the consumer electronics market, which will open new growth opportunities for the Company.

I would like to extend my thanks to all of our employees and customers who helped make 1998 such a successful year. ATI's dedicated and focused staff provide the Company with the energy it requires to enhance its position as the graphics market leader. ATI's OEM and retail customers recognize and acknowledge ATI's core competency and have rewarded ATI with their highly valued patronage. As well, I wish to thank ATI's industry partners, suppliers, our Board of Directors and shareholders for their ongoing support.

Fiscal 1998 was definitely a breakthrough year for ATI. Fiscal 1999 promises to be a year of growth and focused expansion. We are confident that wherever graphics are going, ATI will be a leader with exciting new graphics and multimedia solutions.

K.Y. Ho, President and CEO
October 21, 1998

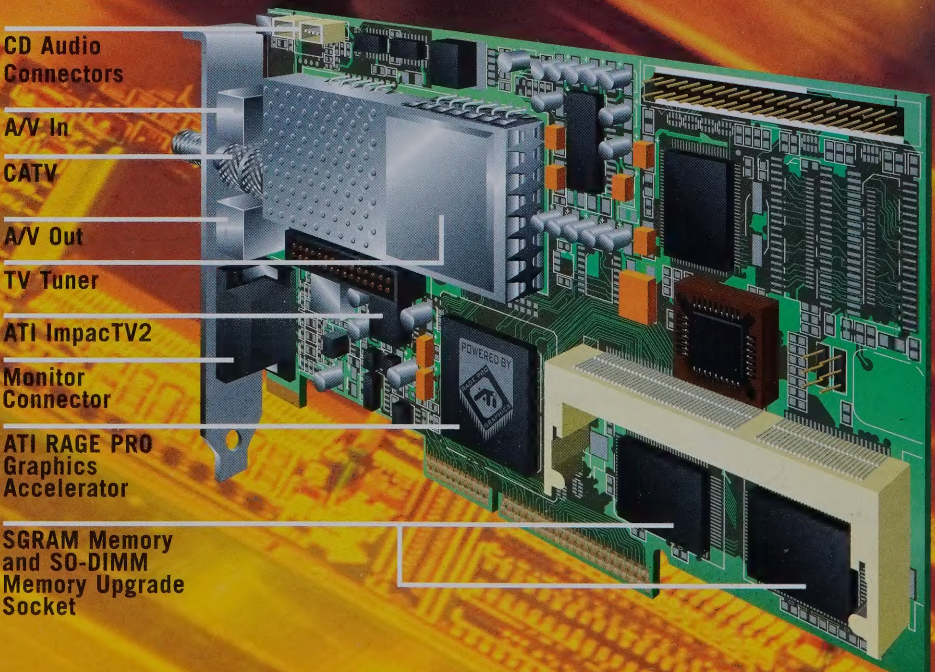
ATI at a Glance



ATI believes that personal computers should express life the way people see it – in 3D, in full motion, with vibrant colours that present a panoramic landscape. A great visual experience.

ATI Technologies, the world's largest supplier of 3D graphics and multimedia technology, designs, manufactures and markets innovative and award-winning multimedia solutions and graphics components and boards for personal computers.

Its components, purchased by OEMs, are chips which reside on the system motherboards. Its board products, purchased by OEMs or by consumers through retail centres, incorporate ATI chips and are inserted into an available slot inside a computer. ATI's multimedia solutions lead the industry in meeting the needs of the rapidly growing convergence market, marrying the intelligence of the computer with the compelling and vast content of television and the worldwide web.

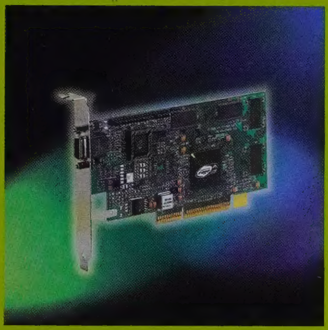


Components

ATI's components or chips are recognized by OEMs throughout the world for their excellence in design and performance. OEMs have been able to use ATI's chips, on their PC motherboards, as the differentiator in positioning their PCs as price/performance leaders.

- RAGE IIC
- RAGE PRO TURBO
- RAGE LT PRO
- RAGE 128

Boards



Since 1985, ATI has pioneered the development of PC graphics board-level products and has emerged as the leader in the graphics accelerator and multimedia markets. OEM and retail customers are assured the most integrated, value-driven solution on the market.

- XPERT 98
- XPERT 128
- RAGE FURY
- RAGE MAGNUM

Multimedia

The multimedia market is presently one of the fastest growing and least defined segments of the PC Enhancement sector. ATI is on the leading edge of many emerging technologies and is committed to deliver these technologies in products for the consumer and commercial markets.

- XCLAIM VR
- ALL-IN-WONDER PRO
- ATI-TV
- RAGE THEATRE

ATI is the top graphics supplier in the world. We are sure to set the pace in current and emerging graphics and multimedia markets.

Building on ATI's Core Competency:
Excellence in Graphics and Multimedia

Fiscal 1998 was a year of *firsts* for ATI. The first year to break $1 billion in revenue and export sales. The first year to top $150 million in earnings. The first success in digital cable set-top terminals. The first year ATI became the top graphics supplier of boards and chips in the world.

Moving *forward,* ATI will initiate and respond to wherever the graphics market goes. Striving to be there *first.*

ATI's competitive advantage is its core competency. It has driven ATI to a market leadership position and will ensure the Company continues to set the pace in current and emerging graphics markets.

This core competency – excellence in the design, production and marketing of graphics chips, boards, multimedia and software – results in a synergy unmatched in the industry.

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R&D that delivers results

New ideas abound at ATI. With more than 600 engineers and a total R&D investment of $85.9 million in 1998, ATI ranks among the top 25 companies in Canada for R&D expenditures. ATI's hardware and software engineers are constantly assessing the graphics market for ideas that result in new graphics products that will shape people's visual experiences.

A continuous investment in research and development arms ATI with the technical edge it needs to outpace competitors by being first to market with next-generation technology.

This strong commitment to R&D allows ATI's team of engineers to focus considerable energy on its core business of 3D and multimedia graphics, while also exploring emerging market opportunities.

ATI has further strengthened its internal R&D capabilities. In fiscal 1998, ATI acquired the graphics design assets of Tseng Labs, Inc., along with its 40-person engineering team. Tseng Labs augments ATI's design capabilities by adding considerable expertise to the Company's product development groups. Early in fiscal 1999, ATI announced a definitive agreement to acquire Chromatic Research, Inc., which develops system-on-a-chip technology for multimedia applications that are ideal for sub-$500 computers, set-top boxes and other consumer electronics devices.

While ATI is consistently first to market with new technology, ATI's product migration strategy gives the Company's products their longevity in a variety of market segments. The Company migrates older generations of products to the lower ends of the market, where they flourish at reduced price points, such as in the sub-$1,000 PC and other value segments. This product migration strategy becomes a barrier to entry for ATI's competitors since the Company's products have already been proven in the market and can be quickly slotted into production to meet fast-emerging market opportunities.

ATI's popularity with OEM customers is a testament to the success of the Company's core competency and its strategic relationships.

Strong relationships with industry leaders

ATI has solid ties within the software and hardware industries that allow the Company to actively participate in technology roadmaps with major players in the industry. Two-way dialogue between industry leaders such as Microsoft, Intel, and leading Original Equipment Manufacturer (OEM) customers, ensures that ATI's chips and boards are compatible with the latest operating systems, consumer and business software applications and hardware specifications.

In 1998, ATI worked with Microsoft to help optimize the multimedia features of Windows 98 prior to its release. In fact, Microsoft used ATI's All-in-Wonder technology as its reference in designing the WebTV-For-Windows function of Windows 98. By working closely with Microsoft, ATI ensured that its products were the best on the market to accelerate Windows 98 functions and features.

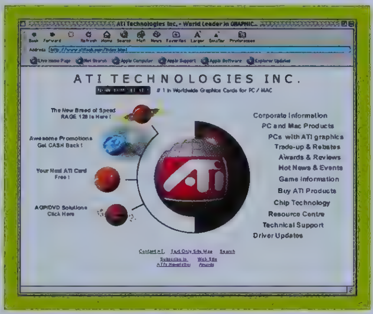
ATI's ongoing involvement with various Microsoft divisions, spearheading new graphics technology such as DirectX 6, secures ATI's role in future Microsoft initiatives. This commitment ensures that ATI's technologies are always optimized for Microsoft's latest initiatives, allowing ATI customers to benefit from the newest advances from Microsoft in the shortest period of time.

In working with Intel, ATI has been able to simultaneously bring to market products that are highly optimized for new systems and technology standards.

Accelerated Graphics Port (AGP) is just one example of collaboration between Intel, ATI and others. A new industry-wide interface specification designed especially for the demands of graphics acceleration, AGP gives the graphics controller direct access to main memory and the ability to process massive texture pixels. This helps deliver a degree of photo-realism never before realized on a PC.

AGP
ACCELERATED GRAPHICS PORT

ATI has a multi-faceted role in the advancement of AGP as the preferred graphics-enabling channel for system memory access. First, ATI's controllers are the most complete AGP-enabled graphics chips on the market, offering performance up to four times faster than other AGP solutions. Second, the Company is helping to guide the acceptance of AGP into mainstream computing. ATI is the first, and only, graphics chip manufacturer to ship over 10 million AGP controllers to OEMs and retail customers around the world.



www.atitech.com

Reaching out to customers

ATI's popularity with OEMs is a testament both to the success of the Company's core competency and the strategic relationships with OEMs that have been built over time. ATI can determine the graphics requirements of OEMs at an early planning stage and support OEMs with the most complete, cost-effective solution on the market.

The Company offers OEMs the flexibility of choosing either its chips for motherboard implementation, or add-in boards to meet the specific configuration demands of its customers, particularly in the growing build-to-order segment. The customization of graphics and multimedia appeals to OEMs who constantly see ATI software and hardware as a way to offer product differentiation to end-users in a competitive market.

ATI also dedicates considerable resources to end-users – the people who experience vivid graphics at home or at work. ATI currently services end-users around the globe via a strong support network of technicians who are available to assist people with the selection, purchasing, installation and use of their ATI product. The ATI web site is another important information source, designed to offer advice on how to optimize the systems of end-users through the use of ATI products.

ATI continues to build its global presence. At year-end 1998, ATI products were localized in some 20 languages to meet the language requirements for major European and Asian countries. ATI and its channel partners continue to bring ATI products to the mass consumer retail market. The Company has established distribution channels in all leading world markets through leading retailers, including superstores and catalogue resellers. ATI further reinforced its effective European distribution capabilities in 1998 by officially opening a strategic distribution and product localization base in Ireland.

ATI controls all aspects of the design and manufacturing of its graphics and multimedia products delivering total solutions to its customers.

In charge of design and production

ATI controls all aspects of the design and manufacture of its graphics and multimedia solutions. This provides the Company with a number of significant advantages, including: speed to market; quality control; the opportunity to customize products to the requirements of OEMs; and the ability to create design programs that raise the performance bar for new products while lowering costs.

Accredited as an ISO 9002 Company, ATI delivers products to its OEM customers that adhere to strict quality assurance standards. Manufacturing takes place either in ATI's Canadian ISO-certified manufacturing facility or is subcontracted to qualified board assembly plants in North America and Asia-Pacific. This way, the Company is able to maintain complete control over the quality, price/performance ratio and delivery of its chips and boards.

A Customer Owned Tooling (COT) program is another way that ATI maintains control over production. Initially begun in 1996, COT programs are a design-to-manufacturing process that gives ATI more control over the component development and manufacturing cycle; shortens lead times from initial order through to final shipment; reduces costs; increases manufacturing flexibility; and improves overall product quality.

Continuously working to get its products to market at the right time, ATI has concurrent design teams of hardware and software engineers.

When designing a chip, ATI engineers are committed to the backward-compatibility of both hardware and software to ensure that ATI products are optimized for the broadest range of products on the market. ATI's teams of hardware and software engineers work closely with each other at every phase of product development to ensure that every ATI product performs at the highest industry level.

ATI has concurrent design teams of hardware and software engineers working simultaneously on the release of a current product and the next-generation product to follow. The concurrent design strategy offers several advantages. First, it enables tight integration of hardware and software, ensuring optimal product performance. Second, as concurrent design teams leverage each other's expertise, it accelerates the time-to-market for ATI products. Concurrent design gives ATI a competitive advantage and allows the Company to develop and deliver a product to OEM customers and end-users at just the right time.

ATI's strict pin compatibility strategy allows OEMs to design an implementation for an ATI chip with the ability to easily migrate to another ATI chip, without the need to re-engineer its product or product software. Not only does this provide OEMs additional flexibility in the chips they use, but it also gives PC manufacturers faster time-to-market for new PC designs and enhancements.

Another element of ATI's chip design strategy is the Company's modular architecture. Enhancements to existing chip designs can be made by adding new features or upgrading function blocks, such as Digital Versatile Disc (DVD) or AGP. This makes development less costly, while reducing the time it takes for OEMs to introduce new products.

ATI ensures consistent supply to OEMs, a result of the Company's investments in foundries and its relationships with the best semiconductor fabrication plants in the world. This permits ATI to optimize volume capacity and to have a readily available supply of boards and components to OEMs and end-users.

ATI's winning combination of components, boards and software has positioned ATI as an innovator and leader in mass market needs.

Software drives success

Integrated software is a key differentiator for ATI's graphics and multimedia products. ATI-developed software breathes life into the Company's controllers and boards, instructing them to operate and communicate with industry hardware and software.

Approximately half of ATI's staff of engineers is dedicated to software development that supports the Company's hardware or adds additional features to the hardware, such as software DVD or TV-tuner capabilities.

ATI implements a single driver strategy across all chips and boards. This standardized approach allows OEMs to easily bring to market a wide range of products based on ATI chips and boards, with few compatibility issues. This is good news for OEMs, who can be guaranteed a minimal investment in customer service resulting from graphics-related issues.

The driver software strategy implemented by ATI's engineers also ensures that end-users spend most of their time enjoying their ATI products, rather than worrying about performance and compatibility issues.

ATI's software engineers also work with computer games developers. ATI has a thorough games developers' support program, which provides a complete set of technical and marketing services – from programming to distribution – to maximize games development on ATI products.

Emerging markets fuel future growth

Consumer technology offers unlimited opportunities to make computing easier, more enjoyable and more accessible to people. DVD technology, set-top boxes and digital flat panel (DFP) displays are three developing sectors within the graphics industry that bring the power of graphics closer to consumers. Each technology is expected to become a mainstay in the family or living room within the next five years.

ATI is applying its core competency to be at the leading edge of these emerging technologies. The Company has received numerous orders from OEMs for ATI products that enable graphics for the new technologies and the Company has created partnerships with major industry innovators to promote the advancement of these growth markets.

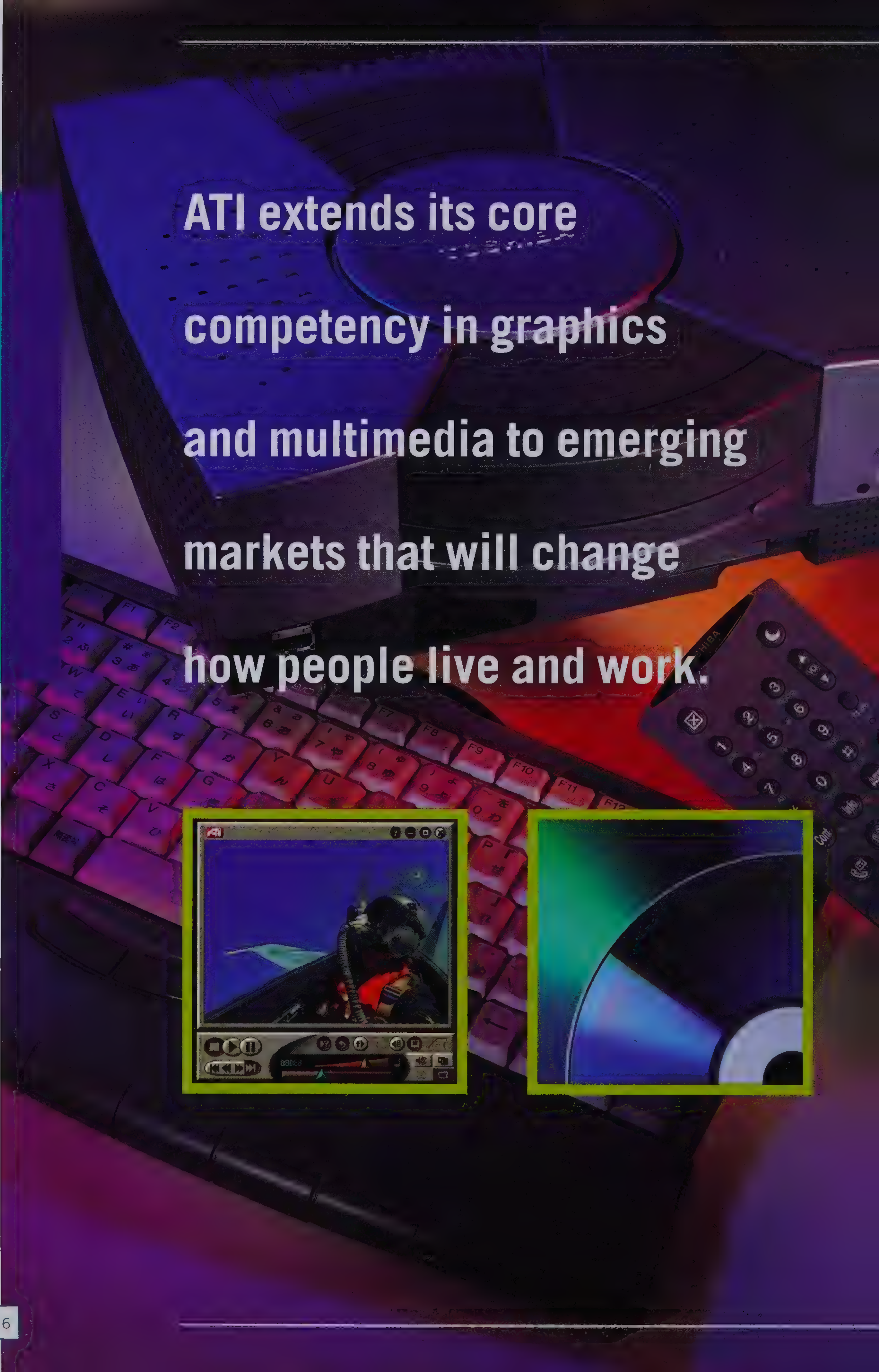
DVD: ATI is instrumental in the rapid adoption of DVD by OEMs and consumers alike by offering a DVD hardware-assisted solution for OEM systems at various price points.

ATI was the first graphics firm to integrate software DVD into its graphics chips, enabling the use of software DVD playback with quality close to that of video tape replay. This hardware assistance allowed OEMs to offer DVD-ready systems using an inexpensive software solution, as opposed to the expense of dedicated hardware DVD chips and boards. ATI's DVD Player, when coupled with an ATI RAGE PRO TURBO graphics chip, produces the lowest cost, highest quality DVD solution on the market.

Set-top boxes: The set-top box market offers huge opportunities for ATI since it integrates several of the elements of the Company's core competency into a mainstream multimedia unit for computing and entertainment applications.

Set-top boxes are small devices that allow users to watch TV, surf the Web and use a computer as they would a desktop – all from the comfort of their family room sofa. With approximately seven million units currently shipping yearly, industry research firm Dataquest projects this volume to reach approximately 30 million units in year 2000.

ATI extends its core competency in graphics and multimedia to emerging markets that will change how people live and work.



With cable companies and content providers already well along the path to providing integrated Internet and TV programming, ATI has become the supplier of choice for graphics and video acceleration, as well as the digital-to-analog TV-out technology for the set-top.

ATI has a strategic and technical advantage in the set-top box arena. Set-top units demand strong graphics and video capabilities. ATI is one of the few companies involved in the set-top market whose core competency enables them to offer an integrated graphics and video solution.

In 1998, ATI distinguished itself by being the first, and only, company to announce a Microsoft Windows CE reference design for the ultimate set-top box, the Set-top Wonder CE. Amid widespread industry support, the Set-top Wonder CE, which takes full advantage of Microsoft's Windows CE operating system for consumer devices, quickly became the blueprint for the first generation of fully enabled set-top boxes.

ATI's Set-top Wonder is the only set-top reference design in the world that offers DVD, High Definition TV (HDTV), Motion Picture Expert Group (MPEG) decoding, cable, basic WebTV functionality, TV-tuner, Web-browser and e-mail capabilities.

ATI's vision for set-top boxes was reinforced in August 1998, with the announcement that ATI would provide the graphics and TV-out technology for millions of set-top boxes to be manufactured by General Instruments (GI) and distributed to cable subscribers throughout the U.S. The arrangement with GI, the largest manufacturer of set-top units, calls for the shipment of 15 million set-top boxes over the next three to five years.

Flat panel displays: The growth of the digital flat panel market has risen in the last year as DFP monitors now meet the technical level where an image on DFP is far superior to that of a conventional Cathode Ray Tube (CRT) monitor. What had impeded earlier growth was the lack of a standard interface between the computer and the monitor. Prior to ATI's entry into this segment, the video signal from the PC was converted to analog (for use with the CRT) and then converted back again to digital for the DFP monitor. This caused degradation of the image and restricted the growth of the DFP monitor market.

Working with an array of major OEMs and DFP partners, ATI was instrumental in developing new technology that makes the digital-to-analog-to-digital conversion unnecessary. The result is a new standard that avoids the image quality degradation of conversion and is less expensive to implement by OEMs. This advancement is promoting more rapid adoption of flat panel monitors.

Industry analysts predict that flat panel monitors will eclipse CRT monitors in popularity by 2004. DFP monitors are already in high demand worldwide in certain business sectors, such as financial services, where people require a large number of screens on a single desk.

Notebooks: ATI has the leading 3D, AGP-enabled notebook accelerator, providing desktop equivalent graphics and video acceleration, plus TV-out technology, in a single, integrated, low-power chip. In 1998, ATI penetrated seven of the top 12 notebook OEMs with its strong graphics solutions.

A 1998 Mercury Research report recognized ATI's momentum in the mobile 3D market, announcing that the Company had captured a 31% share in portable 3D graphics accelerators.

As 3D business, Internet and gaming applications become mainstream uses for notebooks, ATI is well positioned to provide the market with the best graphics, video and TV-out integrated solution.

Workstations: ATI delivers graphics sophistication that accrues exponentially with each generation. The Company now produces mainstream-priced graphics chips that are well suited for workstation applications such as computer-aided design (CAD) and computer-aided manufacturing (CAM).

With today's ultra-powerful PCs now replacing mainframes and workstation installations, ATI is again well positioned to take a significant share of this emerging market.

Sub-$1,000 PCs: ATI's chip migration strategy, which shifts existing chip designs to the lower segments of the market as newer ones are introduced, positions the Company as a top supplier of graphics solutions for the sub-$1,000 PC.

Not only do OEMs get the best price/performance accelerator for the sub-$1,000 PC, but end-users benefit from capable and reliable graphics that only a year earlier would have cost much more as part of a new system.

ATI: Leading into the future

Since the Company's inception in 1985, ATI has offered a unique combination of product, performance, price and people. ATI has continually introduced a wide range of easy-to-use, technically superior products known for their excellence in price/performance and supported by ATI's knowledgeable and accessible staff.

Since the Company's inception in 1985, ATI has offered a unique combination of product, performance, price and people.

ATI's strategic growth in 1998 can be attributed to the right combination of factors including the strength of the Company's core competency, strong industry relationships, focused research and development, a global presence and a team of professionals that give ATI its energy.

In the next year, consumers will witness advancements in graphics technology that will take high-quality, low-cost graphics to yet another level of reality – whether on a desktop or notebook computer, or on the family TV. ATI is strategically positioned to advance these new graphics markets with a team of engineers who can extend their vast knowledge of graphics technology to exciting new applications and opportunities.

ATI's core competency positions the Company to lead well into the future. The Company is committed, through a strong internal R&D capability, to develop the right products, at the right time, with optimal performance and function. ATI works closely with industry leaders in the hardware and software communities to capitalize on shifts in graphics and multimedia directions.

Wherever customers want an incredible graphics or multimedia experience – on the desktop, the laptop, the set-top, video, movies or flat panel – ATI will be a leader with the right solution to meet their needs.

Recognition of Excellence

ATI and its products have earned rave reviews and awards. The following table highlights some of the Company's achievements in fiscal 1998.

NORTH AMERICA

3D PRO TURBO PC2TV	
Best Buy	PC World OCT '97
ALL-IN-WONDER PRO	
Editor's Choice	The Computer Paper JAN '98
Computer Gamers Choice	Computer Gaming World JAN '98
The Best of '97	PC Magazine JAN '98
Innovation '97 Finalist	EDN DEC '97
Technical Excellence Award	Canadian Computer Wholesaler COMDEX PACRIM '97
Most Valuable Product Award	PC Computing FALL COMDEX '97
Innovation of the Year Award	PC Computing FALL COMDEX '97
Best of Comdex Award	Byte Magazine FALL COMDEX '97
Editor's Choice	PC Magazine DEC '97
ALL-IN-WONDER PRO (PCI)	
A-List	PC Computing MAY '98
XCLAIM 3D	
Editor's Choice	MacWorld AUG '98
XCLAIM TV	
4 Mice	MacWorld AUG '98
XCLAIM VR	
Editor's Choice	MacWorld AUG '98
XPERT@Play	
Kick Ass	Boot DEC '97
XPERT@Work	
Best Buy	PC World MAY '98
Editor's Choice	PC Gamer MAY '98
Best Buy	PC World MAY '98
WINLIST	Windows Magazine JAN '98
Best Buy	PC World DEC '97

EUROPE

ALL-IN-WONDER PRO	
Best Buy	PC Guide MAR '98
XPERT@Play	
Best Graphics Card	What PC? JUN '98
Best Buy	What PC? APR '98
Best Graphics Card	PCW Awards '98
Editor's Choice	Personal Computer World DEC 97
Computer Shopper Award	Computer Shopper NOV '97
XPERT@Work	
Best Buy	PC Advisor MAY '98
Editor's Choice	PC Magazine APR '98
Computer Buyer Recommended	Computer Buyer DEC '97
XPERT@Work AGP	
Produit STAR '98	INFO PC JAN '98

DISTRIBUTION CHANNEL

ATI TECHNOLOGIES	
Channel Champion	Computer Reseller News JUN '98 U.S. and Canada
Reseller's Choice Award	Canadian Dealer News JUN '98

Management's Discussion and Analysis of Operating Results and Financial Position

The following discussion should be read in conjunction with the Company's 1998 Consolidated Financial Statements and accompanying Notes beginning on page 31 of this Annual Report.

Overview

ATI Technologies Inc. (ATI) reported sales of $1,156.9 million for the year ended August 31, 1998, an increase of 92% over fiscal 1997 sales of $602.8 million, which was an increase of 29% over fiscal 1996 sales of $466.6 million. Net income of $168.4 million for the year ended August 31, 1998 compares with net income of $47.7 million in fiscal 1997 and net income of $27.3 million in fiscal 1996.

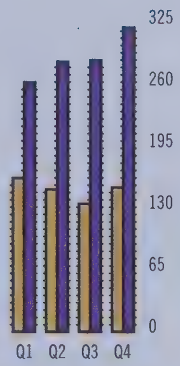
The main reasons for the significant improvement in operating results in 1998 were the Company's ability to increase market share while maintaining an effective cost structure. Sales increased in 1998 due to: increased penetration into the commercial market segment of PC Original Equipment Manufacturers (OEMs) timely introduction of products around the AGP 2X standard; strong demand for ATI's 3D RAGE family of products, both components and boards; introduction of a complete line of products – for performance to value to low-cost systems; and, added notebook sales. In 1998 ATI continued to improve gross margin and operating cost percentages over the prior fiscal year. Gross margins improved due to: full implementation of the Company's Customer Owned Tooling (COT) initiative; improved procurement power as a volume purchaser of materials; a higher percentage of component products; and, more leading-edge 3D boards.

Operating results improved in 1997 primarily as a result of good sales growth and better gross margins. Sales increased in 1997 over 1996 mainly due to: achieving penetration into the Top Ten PC OEMs; strong demand for ATI's 3D components; introduction of several new and innovative board-level products; and, growth in sales to the Asia-Pacific PC markets. Gross margins improved as the Company moved to fully implement its COT design and production system rather than outsource production to full service fabrication (fab) plants as in prior years; a higher percentage of component products; and, more leading-edge 3D boards.

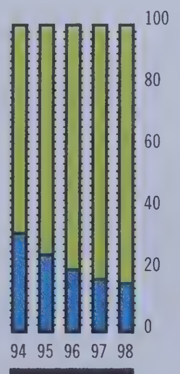
The principal reasons for the improvement in operating results evidenced in fiscal 1996 include: the expansion of ATI's geographic markets in Asia-Pacific; the further expansion of ATI's product lines to include high-volume component sales; the positive impact of new board products introduced during fiscal 1996; the favourable impact of a dramatic decline in memory prices in the latter half of the year; and, a continuing management focus on improving ATI's gross and pre-tax margins.

Industry, Market and Product Trends

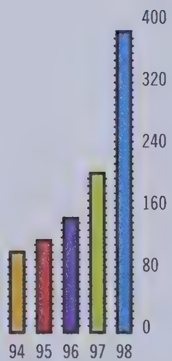
In fiscal 1995, the PC graphics market witnessed a transition from multiple-component graphics accelerator products to integrated graphics accelerator solutions. During 1995 ATI and all of its major competitors in graphics component design and supply responded to this change and announced their first integrated graphics accelerator products. ATI introduced the ATI-264CT, an



Sales by Quarter
($ MILLIONS)
1997
1998



Sales by Channel
(% OF SALES)
OEM
Distribution



Shareholders' Equity
($ MILLIONS)

advanced modular-design graphics accelerator. The ATI-264CT modular design has been and will continue to be the 2D base for much of ATI's integrated chip technology R&D efforts. Further augmenting the Company's core technology blocks, ATI added a video module and introduced the ATI-264VT in 1996.

In fiscal 1997, the Company introduced its latest core module, a 3D feature set integrated in the ATI RAGE family of components. These new integrated graphics accelerator components have been the base by which the Company has established itself as a supplier to the value-priced, high-volume OEM component market.

During fiscal 1997, the Company's R&D group concentrated further on supporting the transition to a high-volume OEM component supplier and adopted a Customer Owned Tooling component design and manufacturing process. The COT process allows ATI increased design and manufacturing flexibility, in addition to lowering overall product costs. In fiscal 1998, ATI completed the transition to become a significant supplier of the value-priced, high-volume OEM component market (see also discussion under *Component Supply* section).

As mentioned in the prior year's MD&A, management continues to believe that the multimedia market also represents a significant growth opportunity for the Company. R&D efforts in the multimedia product market increased in fiscal 1998 over the previous years and several new multimedia board-level products were introduced. Most noteworthy was ATI's ALL-IN-WONDER PRO multimedia board which has won much critical acclaim. Additional new product announcements with respect to ATI's multimedia hardware and software products are expected to be made early in fiscal 1999.

Management also believes that the laptop or portables segment of the computer market represents a significant growth opportunity for the Company. From the Company's inception through fiscal 1998, its product direction has been targeted primarily at the desktop segment of the computer market. Recent industry surveys indicate that the laptop or portables segment of the computer market may be the fastest growing segment of the market over the next few years. As a result, ATI increased its R&D efforts in the laptop or portables product category in fiscal 1997 and fiscal 1998. New product announcements with respect to ATI's laptop or portable multimedia graphics component products are expected to be made early in fiscal 1999.

Comparison of Operating Results for the Years Ended August 31, 1998, 1997 and 1996

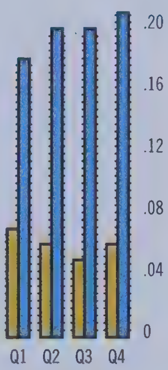
Operating Results

The Company's reported operating results have been and will continue to be subject to quarterly and other fluctuations as a result of several factors including, among other things, changing market conditions; changes in pricing policies by competitors and/or suppliers; the availability and cost of the Company's products and materials from suppliers; the addition or loss of significant customers; seasonal customer demand; new product introductions by the Company or

its competitors; and, changes in the sales mix both of products sold and the geographic regions where the products are sold.

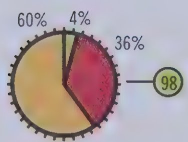
The Company's reported operating results may vary from prior periods or may be adversely impacted in periods where it is undergoing a product line transition when sales of newer products must be ramped up to replace sales of the Company's older products. These older products often come under significant pricing and margin pressure as a result of competitors' actions in the marketplace. If the Company's new products are delayed or do not offer the features and performance required by its customers, operating results may be negatively impacted. As a result of all or any combination of the issues discussed above, the Company's operating results and common share price may be subject to a significant level of volatility, in particular on a quarterly basis.

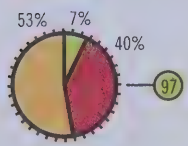
The following table sets out a comparison of operating results for the three most recent fiscal years and a comparison of the percentage of sales represented by each line item.



Fully Diluted Net Income Per Share by Quarter ($)

Thousands of Canadian dollars, except per share amounts	Years ended August 31 1998 $	1998 %	1997 $	1997 %	1996 $	1996 %
Sales	$ 1,156,921	100.0	$ 602,839	100.0	$ 466,598	100.0
Cost of goods sold	728,931	63.0	409,153	67.9	343,699	73.7
Gross margin	427,990	37.0	193,686	32.1	122,899	26.3
Expenses						
Selling and marketing	101,411	8.8	58,936	9.8	45,174	9.7
Research and development	66,574	5.7	44,459	7.4	27,507	5.9
Administrative	30,247	2.6	21,848	3.6	14,933	3.2
	198,232	17.1	125,243	20.8	87,614	18.8
Income from operations	229,758	19.9	68,443	11.3	35,285	7.5
Interest and other income	5,908	0.5	3,733	0.6	3,683	0.8
Interest expense	(155)	—	(382)	—	(179)	—
Income before income taxes	235,511	20.4	71,794	11.9	38,789	8.3
Income taxes	67,087	5.8	24,105	4.0	11,442	2.4
Net income	$ 168,424	14.6	$ 47,689	7.9	$ 27,347	5.9
Net income per share						
Basic	$0.86		$0.25		$0.15	
Fully diluted	$0.79		$0.24		$0.14	





Sales by Geography

- U.S.A.
- Europe and Asia-Pacific
- Canada

Sales

Sales in fiscal 1998 increased by $554.1 million, or 92%, over fiscal 1997, which was $136.2 million, or 29%, over fiscal 1996. The increase in year-over-year sales reflects: the Company's success in penetrating the OEM market, especially the Top Ten OEMs in both the consumer and commercial PC market segments; the geographic expansion into European and Asia-Pacific markets; the introduction of several new products, both component and board-level; and, a broadening product line from performance to value to low-cost offerings in fiscal 1998 and 1997. Going forward, the Company expects that component-level dollar sales to OEM customers will maintain a comparable percentage of total dollar sales over prior years' levels. Component sales attract a lower average selling price than board-level products. To the extent that component sales replace board-level sales to existing customers, if total unit sales do not increase in sufficient quantities, the Company's total sales may be adversely impacted. In addition, increasing competition in the computer graphics market has resulted in continuing pressure on pricing and margins for both component and board-level products. To the extent that this competition and price pressure continues, the Company's total sales may be adversely impacted.

Sales to OEM customers continued to increase as a percentage of total Company sales: OEM – 84% and Distribution – 16% of total Company sales in 1998; compared with OEM – 83% in 1997 (80% in 1996) and Distribution – 17% in 1997 (20% in 1996). Sales by major geographic territory (previous years – 1997 and 1996 – in brackets) were as follows: Canada 4% (7% and 7%); U.S.A. 36% (40% and 41%); and, Europe and Asia-Pacific 60% (53% and 52%). The increase in European and Asia-Pacific sales as a percentage of total sales is a direct result of ATI's efforts to strengthen its international sales force and to localize the Company's products into all of the major European and Asian languages. These initiatives commenced during fiscal 1995 and continued into fiscal 1998.

In fiscal 1998, 1997 and 1996, no single customer accounted for 10% of total sales and the Company's top 10 customers accounted for less than 60% of total sales.

Cost of Goods Sold

Cost of goods sold decreased as a percentage of sales from 67.9% in 1997 (73.7% in 1996) to 63.0% in 1998.

The improvement in cost of goods sold in 1998 relative to 1997 reflects the positive impact of: a full year's implementation of the COT design and production methodology; the timely introduction of market leading 3D products, both on a component-level and board-level; the ability of the Company to lever its procurement skills as a volume purchaser of materials; and, better margins worldwide.

The improvement in cost of goods sold in 1997 relative to 1996 reflects the positive impact of: the implementation of the COT initiative commencing with the Company's RAGE II+ component; the timely introduction of several new 3D component and board-level products; and, the benefits

of lower material costs purchased directly by the Company.

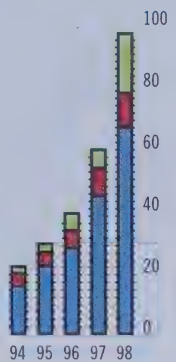
Expenses

Selling and marketing expenses increased significantly in fiscal 1998 over fiscal 1997 in terms of total dollar amount ($42.5 million), but declined as a percentage of sales – 9% in fiscal 1998 versus 10% in fiscal 1997. Selling and marketing expenses also increased significantly in fiscal 1997 over fiscal 1996 in terms of total dollar amount ($13.8 million), but remained relatively unchanged as a percentage of sales – 10% in fiscal 1997 versus 10% in fiscal 1996. In both comparisons, a significant portion of the increase in total selling and marketing expense reflects the increase in sales and marketing personnel; the increased commission and marketing costs to support the continuing expansion of ATI's geographic sales markets; and, the introduction of the Company's new products in fiscal 1998 and fiscal 1997. Management does anticipate that selling and marketing expenses will continue to increase in total dollars, in order to support anticipated sales growth and continued geographic market expansion.

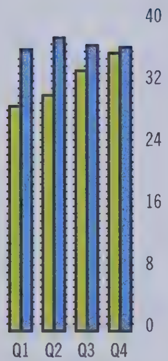
Research and development expenses increased significantly in fiscal 1998 over fiscal 1997 by approximately 50% (or $22.1 million) and in fiscal 1997 over fiscal 1996 by approximately 62% (or $17.0 million). As a percentage of sales, research and development expenses declined in fiscal 1998 over fiscal 1997 (6% versus 7%) and increased in fiscal 1997 over fiscal 1996 (7% versus 6%). The increases in R&D expenses reflect: additions to R&D staff during the year (634 at August 31, 1998; 473 at August 31, 1997; 303 at August 31, 1996); the subsequent, full-year impact of staff additions made during the prior years; technical support required for the Company's COT initiative; the continued expansion of ATI's R&D activities into the multimedia and notebook segments of the graphics market; the acquisition of Tseng Labs and building up of concurrent development teams; and, the continuing focus on ATI's core integrated chip technology, which will support ATI's new product development efforts in fiscal 1999 and beyond. Management expects that R&D expenses will continue to increase in total dollars in order to support the Company's product line expansion and anticipated sales growth.

Administrative expenses increased in fiscal 1998 over fiscal 1997 by approximately 39% (or $8.4 million), and increased in fiscal 1997 over fiscal 1996 by 46% (or $6.9 million), due to increased expenses incurred by ATI and ATI's European and Asia-Pacific subsidiaries to further strengthen the corporate infrastructure in order to manage the significant growth experienced in fiscal 1998 and 1997. In particular, in fiscal 1998 ATI established operations in the Asia-Pacific regions and fiscal 1997 included the first full year of operations for ATI's manufacturing, distribution and supply facility in Dublin, Ireland. As a percentage of sales administrative expenses declined from 4% in fiscal 1997 to 3% in fiscal 1998.

Income tax expense as a percentage of *Income before income taxes* decreased from



Investment in Research and Development
($ MILLIONS)



Gross Margin by Quarter (%)

1997
1998

34% in fiscal 1997 to 29% in fiscal 1998. The principal reason for the decrease in the Company's effective income tax rate was the increased proportion of sales from the European and Asia-Pacific regions.

Income tax expense as a percentage of *Income before income taxes* increased from 30% in fiscal 1996 to 34% in fiscal 1997. The principal reason for the increase in the Company's effective income tax rate in fiscal 1997 was due to the decrease in loss-carry-forward amounts available for Ontario income tax purposes. These loss-carryforward amounts had been utilized in prior years (see also note 9 to the *Consolidated Financial Statements*).

Liquidity and Financial Resources

a) Cash

The Company has a CDN$100 million credit facility with a Canadian chartered bank (US$40.0 million or CDN$55 million in 1997). ATI had CDN$68.9 million (CDN$71.8 million in 1997) in net cash resources (cash, cash equivalents and short-term investments less bank indebtedness) at August 31, 1998 which, in addition to the available operating line of CDN$100 million, provides CDN$168.9 million of resources available to support ATI's operating objectives in fiscal 1999. Management believes that existing net cash resources and anticipated cash flow from operations will be sufficient to support the Company's projected working capital and capital expenditure requirements, including the acquisition of Chromatic Research, Inc. (see discussion below).

In both fiscal 1998 and 1997 ATI diligently monitored its working capital needs and produced positive cash flows from operations – cash provided by operating activities in 1998 amounted to $34.6 million, compared with $28.5 million in 1997. Issuance of common shares amounted to $14.9 million, compared to $10.2 million in 1997. Capital expenditures, largely due to R&D activities, amounted to $35.1 million for 1998, compared to $12.4 million in 1997 (see discussion below). Increases in other assets made during fiscal 1998, including the final installment for ATI's investment in United Integrated Circuits Corporation (see discussion below), amounted to $17.3 million compared to $18.1 million in 1997. As a result, net cash resources decreased by $2.9 million from $71.8 million at the end of fiscal 1997 to approximately $68.9 million at the end of fiscal 1998.

b) Accounts Receivable

Accounts receivable increased 107% to $235.8 million at August 31, 1998 from $113.7 million at August 31, 1997. The substantial year-over-year increase in accounts receivable is due principally to large sales of the Company's products that occurred in the fourth quarter. On a fourth quarter to fourth quarter comparison, sales increased 111% from fiscal 1997 to fiscal 1998 and accounts receivable increased 107% over the same period.

At August 31, 1998, 89% of accounts receivable were current or less than 60 days outstanding (95% in fiscal 1997). Export Development Corporation (EDC) guarantees on outstanding accounts receivable covered approximately 91% of total accounts

receivable, compared with 89% of total accounts receivable as at August 31, 1997.

c) Inventories

Inventories of $173.1 million at August 31, 1998 were higher than the $41.6 million on hand at August 31, 1997. Annual inventory turns were 6.8 times in fiscal 1998 compared with 12.5 times in fiscal 1997.

As discussed in the 1997 MD&A, *"management is of the opinion that inventory levels will likely increase in future given the transition to a COT design and manufacturing technology base."* Fiscal 1998 was the first full year of the COT implementation, a system that requires the Company to maintain a higher level of raw materials for production of its proprietary Application Specific Integrated Circuits (ASICs). In addition, in fiscal 1998 the Company was required to hold a larger amount of inventory in order to support higher sales volumes and a wider range of products, and maintain buffer inventory stock for large OEMs and for the launch of the Company's new products, such as the RAGE IIC and RAGE LT.

d) Capital Assets

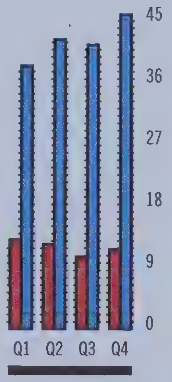
Capital additions in fiscal 1998 totalled approximately $35.1 million ($12.4 million in fiscal 1997). Approximately $4.2 million of these expenditures related to the purchase of land and construction costs related to the building of the Company's distribution and supply facility in Ireland; and, approximately $22.1 million related to purchases of computer software, hardware and COT design tools to support ongoing R&D activities (comparable purchases of R&D related capital assets totalled $6.4 million in fiscal 1997). Also included in the 1998 capital additions, were expenditures of approximately $3.9 million related to the Company's new ERP (Enterprise Resource Planning) system, SAP.

e) Other Assets

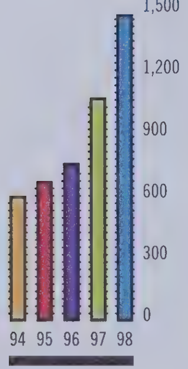
In fiscal 1996, the Company entered into an agreement with United Microelectronics Corporation (UMC) and other investors to build and operate a semiconductor manufacturing facility, United Integrated Circuits Corporation (UICC) in Taiwan. The Company's investment which was paid in three installments totalling 697 million New Taiwanese Dollars, or $35.3 million Canadian dollars, entitles the Company to a 4.7% equity interest in UICC and the right, but not the obligation, to purchase a portion of the wafer capacity of the new manufacturing facility at fair market prices.

In October 1997, the semiconductor manufacturing facility, which was in the final phase of construction, was damaged by fire. The damage, which is covered by the facility's insurance policy, has caused a significant delay in the completion of the facility.

On October 21, 1998, the Company entered into an agreement to acquire Chromatic Research, Inc. (Chromatic) for a total investment of approximately US$67 million, comprised of 100% of the outstanding shares of Chromatic and assumption of Chromatic's net liabilities. The acquisition will be accounted for using the purchase method. The cash outlay on closing is expected to be approximately US$55



Net Income by Quarter
($ MILLIONS)



Number of Employees

million. The allocation of the purchase price to identifiable net assets has not yet been determined.

Potential Risks and Uncertainties

General and Economic

General economic and market conditions will continue to affect the timing, frequency and size of customer orders. A downturn in capital spending or in the market for PCs, significant order cancellations or order rescheduling could also impact ATI's overall sales and operating performance. In addition, as the Company must often order component products and build board-product inventories well in advance of shipment, in order to meet anticipated customer demand, there is a corresponding risk that sales forecasts will not match actual customer demand levels and that the Company will, as a result, produce either excess or insufficient inventories of certain products. Either of these situations could have an adverse impact on sales and operating results.

Technological Change

Most of the Company's product lines are and will continue to be subject to rapid technology and price changes, evolving industry standards and frequent new product introductions. The Company's success will depend on market acceptance of its existing products and its ability to enhance its existing products and to introduce new products and features to meet changing customer requirements. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing new products or enhancing its existing products. Many of the Company's customers place orders for products with a short lead time. These customers generally can change delivery schedules or cancel orders without significant penalties. The ability of the Company's customers to cancel or reschedule orders not only increases the inventory production risk discussed below, but also may adversely impact reported operating results.

Product and Research and Development Life Cycle

In the PC enhancement industry, the life cycle of new products will continue to shorten. As existing products mature, they migrate to the lower end of the product line, allowing the Company to offer a full range of products at all price points. The ability to be among the first-to-market with new or enhanced products and to replace the existing products, will be increasingly important to ATI in order to take advantage of these shorter market life cycles. In recognition of this, net R&D expenditures have increased in fiscal 1998 by more than $22.1 million (or 50%) over fiscal 1997 and in fiscal 1997 by $17.0 million (or 62%) over fiscal 1996. Management expects that R&D expenditures will continue to increase on an annual basis in the current fiscal year and beyond, as ATI continues to expand its product lines.

Proprietary Technology

The Company's success is heavily dependent upon proprietary technology. The Company relies principally upon copyright, trademark, patent and trade secret laws to protect its pro-

prietary technology. Where appropriate, the Company also enters into nondisclosure agreements with persons to whom it reveals its proprietary information. There can be no assurance however, that these laws or nondisclosure agreements will be adequate to prevent misappropriations or independent third party development of the same or similar technology.

Component Supply

During fiscal 1997, the Company began to purchase components in raw material or wafer form and, under the COT design and manufacturing process discussed above, manages the subcontracting of the ASIC assembly, packaging and test processes. The change in the Company's manufacturing process from a full service basis, where the foundry is responsible for delivering the finished ASIC component, to a COT basis, where the wafer foundry processes the wafer only and ATI is responsible for completing the assembly, packaging and test processes to create ASIC components, has required the Company to maintain higher raw material inventory than was the case in previous years. This is because wafer inventory must be purchased immediately prior to beginning production of the Company's components.

The cyclical nature of the semiconductor industry has, in the past, resulted in shortages of wafer fabrication capacity. The Company's ability to maintain adequate levels of wafer inventories going forward will depend on the Company's ability to obtain a sufficient allocation of wafer production capacity from wafer foundries. Any inability of the Company to secure such allocations in future may adversely affect its ability to meet customer demand for its component and board products and, as a result, could have an adverse impact on sales and operating results.

Legal proceedings

The graphics and multimedia industries are characterized by frequent claims and related litigation regarding patent and other intellectual property rights and there is a risk that the Company's current or future products may infringe upon third party proprietary technology. As successive generations of the Company's products tend to offer an increasing number of functions, the likelihood of such infringement will increase. In the event that a third party were to sustain a valid claim against the Company or its customers and the Company was not able to procure a licence to permit the continued use of the third party's products or technologies on commercially reasonable terms, the Company's operating results could be materially and adversely affected. The Company may be required to pay infringement damages, modify its products so that they are non-infringing, discontinue offering products which are found to be infringing and/or indemnify its customers.

On July 1, 1998, Cirrus Logic Inc. (Cirrus Logic) filed a complaint with the U.S. International Trade Commission against the Company. On July 8, 1998, Cirrus Logic also filed a companion complaint in the United States District Court, Northern District of California. Both complaints allege that the Company's sales in the United States of graphics display con-

trollers and products containing those controllers infringe a United States patent. Cirrus Logic has requested an injunction to cease the sale of the Company's graphic display controllers into the United States. Cirrus Logic has also made a claim for an unspecified amount of damages. The Company believes it has meritorious defenses to these claims. The Company has filed a response to both complaints and intends to defend this action vigorously.

Competition

The markets in which the Company competes are highly competitive and ATI expects competition to increase. The Company provides PC graphics and multimedia products to both the high performance and lower cost segments of the OEM, distribution and reseller markets. As a result, ATI competes with every PC graphics and multimedia company that serves one or all of these four distinct market segments.

The Company's competitors include a number of smaller companies which may have greater flexibility to address specific market needs. There also exist a number of large and emerging potential competitors who have begun to focus on the PC graphics market. As the Company continues to expand its product lines to incorporate additional multimedia functionality, it may also encounter substantial competition from established companies in other converging markets.

The markets for the Company's products are characterized by significant price competition and Company management expects it will face increasing pricing pressures as a result of the increased number of competitors in the PC graphics and multimedia markets. There can be no assurance that the Company will be able to maintain its historic prices and margins and an inability to do so may adversely affect the Company's results of operations.

Foreign Exchange

The Company's operating results are reported in Canadian dollars. The majority of the Company's sales and purchases are generated or incurred in U.S. dollars. The exchange rate between the Canadian and U.S. dollar has varied significantly over the past several years. To the extent that U.S. dollar sales are greater than U.S. dollar purchases in a strengthening or weakening U.S. dollar environment, there is a corresponding positive or negative impact on ATI's income from operations. Depending on management's assessment at points in time of economic conditions and the possible direction of the Canadian dollar, in comparison to the U.S. dollar, action may be taken to reduce the possible negative impact by purchasing Canadian dollars forward, thereby fixing the transaction rate for funding Canadian dollar expenses out of U.S. dollar operating cash flows.

In addition, the Company has certain obligations denominated in Irish punts, Deutsche marks, Hong Kong dollars and Japanese Yen in order to fund operating costs of its subsidiaries not located in Canada or the United States. Exchange rate fluctuations in those currencies may also affect the Company's operating results.

Year 2000 Issue

The Company's management fully appreciates the importance of preparing for the year 2000. The "Year 2000 problem" can apply to any computer or date-sensitive device. Current operating systems (hardware and software) could fail, because they are unable to handle the numerals "00" (representing the year 2000) within their processing logic. This issue presents a risk for the Company from unforeseen problems arising from its own computer or operating systems, and from unforeseen problems arising from systems at third parties with whom the Company maintains a significant relationship. Failure of the Company's systems or of those of such third parties to be Year 2000 compliant could result in material interruptions in the manufacturing and distribution of the Company's products and thereby have a material adverse impact on the financial condition and results of operations of the Company.

ATI has established a Year 2000 Steering Committee, to provide direction, and to oversee the efforts of the Company with respect to Year 2000 readiness. The Steering Committee has substantially completed the process of identifying, for the Company's worldwide operations, Year 2000 problems which may exist in its information technology (IT) and non-IT systems. The Company's plan is to resolve, by mid-1999, any issues identified in these systems and to monitor the development of local contingency plans, where required. The Company's products are also reviewed, on a continuing basis, for compliance with Year 2000 requirements.

Year 2000 readiness activities are being accomplished mainly with existing resources. Incremental expenses to achieve Year 2000 readiness incurred to date, and those estimated for 1999, are not expected to be material to the Company's operating results.

ATI also relies on the Year 2000 readiness of its significant suppliers and other vendors. In this regard, the Company is in the process of contacting these third parties to assess whether their operations and the products and/or services they provide to the Company will be Year 2000 compliant. As there can be no absolute assurance that their systems will be converted on a timely basis, management is implementing procedures, including contingency plans, to limit the exposure to third party failure to be Year 2000 ready. However, third party failure, including the failure of the Company's contingency plans, remains a possibility and could have a material adverse impact on the Company's financial condition and results of operations.

In conjunction with the rapid growth in the Company's business volumes, ATI is installing a new, Year 2000 compliant, enterprise wide ERP (Enterprise Resource Planning) and financial system. Project completion is planned for the second calendar quarter of 1999 and implementation is proceeding on schedule. As an added safeguard, the Company's major processing systems have been updated and are currently Year 2000 ready.

Quarterly Information

Historically, ATI has shipped more product in the third month of each quarter than in either of the first two months of each quar-

ter. This sales pattern is common in the personal computer industry and is likely to continue. The concentration of sales in the last month of the quarter may cause the Company's quarterly operating results to be more difficult to predict than would otherwise be the case. Any disruption in ATI's production or shipping near the end of a quarter could have a material impact on the Company's net sales for that quarter.
In addition, the Company's reliance on outside foundries and material suppliers reduces the Company's ability to control, among other things, component supply levels and delivery schedules.

Forward-looking Statements

This Annual Report contains forward-looking statements that involve risks and uncertainties. Actual results may be materially different from those contained in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release any revision to these forward-looking statements, in order to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are referred to the foregoing discussion of potential risks and uncertainties affecting the Company's business, financial condition and results of operations which could cause actual results to be materially different from such forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings with Canadian and United States securities regulatory authorities.

Management's Responsibility for Consolidated Financial Statements

Management of ATI Technologies Inc. is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further ensures the quality of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies.

The Board of Directors discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, which is composed entirely of directors who are not employees of the Company. This committee meets quarterly with management, and at least annually with the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal control, accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by KPMG LLP, who were appointed by the shareholders at the last Annual General Meeting of Shareholders. Their report is presented herein.

K.Y. Ho
President and CEO

J.D. Chwartacky
Vice President, Finance and
Administration and CFO

October 21, 1998

Auditors' Report

To the Shareholders of ATI Technologies Inc.:

We have audited the consolidated balance sheets of ATI Technologies Inc. as at August 31, 1998 and 1997 and the consolidated statements of operations and retained earnings and changes in financial position for each of the years in the three year period ended August 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended August 31, 1998 in accordance with generally accepted accounting principles in Canada, which, except as described in note 13 of the notes to the consolidated financial statements, also conform in all material respects with generally accepted accounting principles in the United States.

KPMG LLP

Chartered Accountants
Toronto, Canada
October 21, 1998

Consolidated Statements of Operations and Retained Earnings

Thousands of Canadian dollars, except per share amounts	1998	1997	1996
	Years ended August 31		
Sales	$ 1,156,921	$ 602,839	$ 466,598
Cost of goods sold	728,931	409,153	343,699
Gross margin	427,990	193,686	122,899
Expenses			
Selling and marketing	101,411	58,936	45,174
Research and development	66,574	44,459	27,507
Administrative	30,247	21,848	14,933
	198,232	125,243	87,614
Income from operations	229,758	68,443	35,285
Interest and other income	5,908	3,733	3,683
Interest expense	(155)	(382)	(179)
Income before income taxes	235,511	71,794	38,789
Income taxes (note 9)	67,087	24,105	11,442
Net Income	$ 168,424	$ 47,689	$ 27,347
Retained Earnings, beginning of year	96,249	48,560	21,213
Retained Earnings, end of year	$ 264,673	$ 96,249	$ 48,560
Net Income Per Share			
Basic	$ 0.86	$ 0.25	$ 0.15
Fully diluted	$ 0.79	$ 0.24	$ 0.14

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Thousands of Canadian dollars	August 31 1998	1997
Assets		
Current assets		
Cash and cash equivalents	$ 7,400	$ 71,763
Short-term investments	61,500	—
Accounts receivable	235,782	113,744
Inventories (note 4)	173,145	41,591
Prepayments and sundry receivables	19,250	6,072
Total current assets	497,077	233,170
Capital assets (note 5)	55,365	31,085
Other assets (note 6)	44,766	27,480
Total Assets	$ 597,208	$ 291,735
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 114,769	$ 55,537
Accrued liabilities	38,176	17,687
Income taxes payable	46,454	7,511
Total current liabilities	199,399	80,735
Deferred income taxes	8,500	5,000
Shareholders' equity		
Share capital (note 8)		
Common shares:		
Authorized – unlimited number of common shares		
Issued and outstanding – 199,174,293 (1997 – 193,998,148)	124,636	109,751
Preferred shares:		
Authorized – unlimited number of preferred shares		
Issued and outstanding – Nil (1997 – Nil)	—	—
Retained earnings	264,673	96,249
Total shareholders' equity	389,309	206,000
Total Liabilities and Shareholders' Equity	$ 597,208	$ 291,735

Commitments and Contingencies (notes 11 and 12)
Subsequent Event (note 14)

See accompanying notes to consolidated financial statements.

K.Y. Ho, Director

Paul Fox, Director

Consolidated Statements of Changes in Financial Position

Thousands of Canadian dollars	1998	1997	1996
	Years ended August 31		
Cash Provided by (Used in)			
Operating activities			
Net income	$ 168,424	$ 47,689	$ 27,347
Add items not affecting working capital:			
Deferred income taxes	3,500	1,200	600
Depreciation	10,832	6,662	5,143
Long-term portion of investment tax credits	—	5,770	2,063
Net changes in non-cash working capital balances relating to operations:			
Accounts receivable	(122,038)	(48,346)	(7,223)
Inventories	(131,554)	(17,910)	31,286
Prepayments and sundry receivables	(13,178)	(1,001)	(299)
Accounts payable	59,232	24,471	(4,422)
Accrued liabilities	20,489	3,138	6,558
Income taxes payable	38,943	6,861	450
	34,650	28,534	61,503
Financing activities			
Net repayment of bank indebtedness	—	(10,270)	(2,155)
Issue of common shares	14,885	10,162	1,501
	14,885	(108)	(654)
Investing activities			
(Purchase) maturity of short-term investments	(61,500)	—	16,702
Additions to capital assets	(35,112)	(12,426)	(8,451)
Increase in other assets	(17,286)	(18,092)	(9,388)
	(113,898)	(30,518)	(1,137)
Increase (Decrease) in Cash	(64,363)	(2,092)	59,712
Cash and Cash Equivalents, beginning of year	71,763	73,855	14,143
Cash and Cash Equivalents, end of year	7,400	71,763	73,855
Short-term investments	61,500	—	—
Bank indebtedness	—	—	(10,270)
Cash Position, end of year	$ 68,900	$ 71,763	$ 63,585

Cash position is defined as cash and cash equivalents and short-term investments, net of bank indebtedness.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

August 31, 1998, 1997 and 1996

(Tabular amounts in thousands of Canadian dollars, except per share amounts)

1. Description of Business

The principal business activities of the Company are the design, manufacture and sale of graphics and multimedia products for personal computers and consumer electronic devices. The Company markets its products to original equipment manufacturers, resellers and distributors primarily in North America, Europe and Asia-Pacific.

2. Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) and are presented in Canadian dollars. No material differences would result if these consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), except as disclosed in note 13.

(b) Principles of Consolidation

These consolidated financial statements include the accounts of ATI Technologies Inc. and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

(c) Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents include highly liquid instruments with an original maturity of less than 90 days. The carrying amounts of cash and cash equivalents are stated at cost which approximates their fair value. The Company's short-term investments include highly liquid instruments with an original maturity of 90 days or more and are carried at cost which approximates their fair value.

(d) Inventories

Raw materials are stated at the lower of cost and replacement cost. Finished goods and work-in-process are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(e) Capital Assets

Capital assets are recorded at cost, net of related investment tax credits, and are depreciated at the following rates:

Building	5% diminishing balance
Laboratory and computer equipment	33 1/3% diminishing balance
Computer software	50% diminishing balance
Customer owned tooling	straight-line over two years
Production equipment	20% diminishing balance
Office equipment	20% diminishing balance
Leasehold improvements	straight-line over term of lease

The Company regularly reviews the carrying values of its capital assets. If the carrying value of its capital assets exceeds the amount recoverable, a write-down is charged to the consolidated statement of operations.

(f) Revenue Recognition

Revenue is recognized when goods are shipped to customers. Provision is made for expected sales returns and allowances at the time of shipment.

(g) Foreign Currency Translation

The Company's subsidiaries are accounted for as integrated foreign operations. Transactions of the Company and its subsidiaries originating in foreign currencies are translated into Canadian currency at the prevailing rates approximating those at the date of the transaction. Monetary assets and liabilities are translated at the year-end rate of exchange and non-monetary items are translated at historical exchange rates. The resulting net gain or loss is included in net income for the year.

(h) Research and Development Expenditures

Research costs, other than capital expenditures, are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. The Company has not deferred any such development costs to date. Research and development costs are reduced by related investment tax credits.

(i) Income Taxes

The Company provides for income taxes based on accounting income using the deferral method. Under this method, income taxes are computed using current tax rates regardless of when such income is subject to income taxes under tax laws. The deferred tax balances which result are not adjusted for any subsequent changes in income tax rates.

(j) Net Income per Share

Basic net income per share has been calculated based on the weighted average number of common shares outstanding during the year. Fully diluted net income per share reflects earnings that would have been reported had all options been exercised at the later of the beginning of the year or the option grant date, and includes an allowance for imputed earnings derived from the investment of funds which would have been received.

(k) Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from estimates made by management.

3. Financial Instruments

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments and accounts receivable. The Company invests only in high-quality cash equivalents and short-term investments. A majority of

the Company's receivables are derived from sales to original equipment manufacturers, resellers and distributors in the personal computer industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. In addition, a significant portion of export receivables are insured against possible losses. The Company maintains adequate reserves for potential credit losses as estimated by management.

In the normal course of business, the Company enters into forward foreign exchange contracts to manage its currency risks. As at August 31, 1998, forward foreign exchange contracts to sell US$20 million for Canadian dollars, to purchase 3.7 million Irish punts using U.S. dollars, and to purchase 3.6 million Deutsche marks using U.S. dollars were outstanding, and had an unrealized loss of $1,250,000. These contracts had remaining terms of one to five months. (As at August 31, 1997, forward foreign exchange contracts to sell US$42 million for Canadian dollars and to purchase 3 million Irish punts using U.S. dollars were outstanding, and had an unrealized loss of $210,000. These contracts had remaining terms of one to three months.) Unrealized losses represent a point-in-time estimate and reflect the estimated amount that the Company would have been required to pay if forced to settle all outstanding contracts at year end.

The carrying amount of cash and cash equivalents, short-term investments, accounts receivable, sundry receivables, accounts payable and accrued liabilities approximates fair market value because of the short-term nature of these instruments.

4. Inventories

	1998	1997
Raw materials	$ 85,180	$ 25,110
Work-in-process	38,571	10,098
Finished goods	49,394	6,383
	$ 173,145	$ 41,591

5. Capital Assets

1998	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,112	$ —	$ 3,112
Building	12,153	1,718	10,435
Laboratory and computer equipment	34,850	13,668	21,182
Computer software	17,874	9,155	8,719
Customer owned tooling	3,801	2,293	1,508
Production equipment	8,603	4,265	4,338
Office equipment	8,288	3,310	4,978
Leasehold improvements	1,266	173	1,093
	$ 89,947	$ 34,582	$ 55,365

1997	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,112	$ —	$ 3,112
Building	7,961	1,284	6,677
Laboratory and computer equipment	17,958	9,438	8,520
Computer software	8,979	5,875	3,104
Customer owned tooling	2,304	1,148	1,156
Production equipment	7,778	3,430	4,348
Office equipment	5,564	2,442	3,122
Leasehold improvements	1,179	133	1,046
	$ 54,835	$ 23,750	$ 31,085

6. Other Assets

	1998	1997
Investment in United Integrated Circuits Corporation	$ 35,316	$ 27,480
Other share investments	9,450	—
	$ 44,766	$ 27,480

United Integrated Circuits Corporation

In 1995, the Company entered into an agreement with United Microelectronics Corporation (UMC) and other investors to build and operate a semiconductor manufacturing facility, United Integrated Circuits Corporation (UICC) in Taiwan. The Company's investment which was paid in three installments totalling 697 million New Taiwanese Dollars, or $35.3 million Canadian dollars, entitles the Company to a 4.7% equity interest in UICC and the right, but not the obligation, to purchase a portion of the wafer capacity of the new manufacturing facility at fair market prices.

In October 1997, the semiconductor manufacturing facility, which was in the final phase of construction, was damaged by fire. The damage, which is covered by the facility's insurance policy, has caused a significant delay in the completion of the facility.

The Company's investment in UICC has been recorded using the cost method.

Other Share Investments

Other investments consist of share investments in other companies in which the Company has interests ranging from approximately 8% to 11%. Investees which the Company does not control or have significant influence over are accounted for by the cost method.

7. Bank Credit Facility

At August 31, 1998 the Company had available a bank credit facility of CDN$100 million or approximately US$64 million (1997 – CDN$55 million or US$40 million). The credit facility may be drawn in either Canadian or U.S. dollars and is secured by way of a general security agreement. Interest rates on the credit facility are based on the bank prime rate for Canadian dollar advances and the bank U.S. base rate for U.S. dollar advances. At August 31, 1998 and August 31, 1997 there were no borrowings outstanding.

Interest of $155,000 was paid during fiscal 1998 (1997 – $382,000; 1996 – $179,000).

8. Share Capital

Common Shares

On April 8, 1998, the Board of Directors of the Company approved the division of its common shares on a four-for-one basis (stock split). The stock split was transacted by means of a stock dividend and was effective for registered common shareholders at the close of business on April 23, 1998. All references to common shares and per share amounts in the consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

Common Shares Issued and Outstanding

	Common Shares	
	Number	Amount
Outstanding, August 31, 1995	189,080,000	$ 98,088
Issued for cash	904,740	1,501
Outstanding, August 31, 1996	189,984,740	99,589
Issued for cash	4,013,408	10,162
Outstanding, August 31, 1997	193,998,148	109,751
Issued for cash	5,176,145	14,885
Outstanding, August 31, 1998	199,174,293	$ 124,636

Common Share Option Plans

Under an option plan in effect prior to November 19, 1993, certain directors, officers and employees were granted options to purchase 2,876,336 common shares for consideration ranging from $2.75 to $3.15 per share. All of these options had vested by August 1997 and, if not exercised, expire by August 1999.

Upon becoming a public company on November 19, 1993, the Company established a Share Option Plan (Plan) for the benefit of directors, officers and employees. This Plan, as amended, provides that the aggregate number of common shares available for issuance pursuant to options granted under the Plan and all other share compensation arrangements (including the prior share option plan) is limited to 38,000,000 common shares. In general, the maximum number of common shares reserved for issuance in respect of any one individual may not exceed five percent, and in respect of all insiders of the Company may not exceed ten percent, of the number of common shares issued and outstanding. The maximum number of shares that may be issued to any one insider of the Company, or to all insiders, within a one year period is limited to five percent and ten percent, respectively, of the number of common shares issued and outstanding.

Options are granted under the Plan at the discretion of the Board of Directors at exercise prices determined as the weighted average of the trading prices of the Company's common shares on the Toronto Stock Exchange for the five trading days preceding the effective date of the grant. In general, options granted under the Plan vest over a period of up to four years from the grant date and expire by no later than the sixth anniversary of the date of grant.

The following is a summary of the maximum number of common shares issuable pursuant to outstanding stock options:

	1998	1997	1996
Options outstanding, beginning of year	19,669,940	17,769,240	8,663,932
Grant of additional options	4,416,240	7,482,720	11,101,000
Cancellation of options	(970,260)	(1,568,612)	(1,090,952)
Exercise of options	(5,176,145)	(4,013,408)	(904,740)
Options outstanding, end of year	17,939,775	19,669,940	17,769,240
Weighted average subscription price of outstanding options	$ 5.19	$ 3.18	$ 2.47
Exercisable (vested) at August 31	4,135,575	6,660,720	664,300
Weighted average subscription price of outstanding exercisable options	$ 4.44	$ 2.32	$ 1.78

The range of subscription prices for options granted, exercised, and cancelled were as follows:

	1998		1997		1996	
	High	Low	High	Low	High	Low
Grant of additional options	$ 16.00	$ 7.35	$ 5.36	$ 4.37	$ 2.96	$ 2.21
Cancellation of options	$ 15.87	$ 1.62	$ 4.45	$ 1.62	$ 3.97	$ 1.62
Exercise of options	$ 5.36	$ 1.62	$ 3.97	$ 1.62	$ 2.29	$ 1.62

Preferred Shares

An unlimited number of preferred shares, ranking in priority upon distribution of assets over common shares, may be issued in series with additional provisions as fixed by the Board of Directors.

No preferred shares have been issued to date.

9. Income Taxes

The provision for income taxes consists of the following:

	1998	1997	1996
Income before income taxes:			
Canadian	$ 149,509	$ 68,034	$ 38,652
Foreign	86,002	3,760	137
Total income before income taxes	$ 235,511	$ 71,794	$ 38,789
Provision for income taxes:			
Current			
Canadian	$ 56,975	$ 21,690	$ 10,582
Foreign	6,612	1,215	260
Deferred			
Canadian	3,500	1,200	600
Income tax expense	$ 67,087	$ 24,105	$ 11,442

Deferred taxes on income generally result from timing differences primarily in the recognition of depreciation and amortization, and research and development expenditures for tax and financial reporting purposes.

Income tax expense in the consolidated statement of operations varies from the amount that would be computed by applying the basic Canadian federal and provincial income tax rates to income before income taxes, as shown in the following table:

	1998	1997	1996
Income before income taxes	$ 235,511	$ 71,794	$ 38,789
Income taxes at Canadian rates	$ 105,085	$ 32,034	$ 17,308
Reduction of Canadian taxes applicable to manufacturing and processing activities	(20,136)	(6,138)	(3,188)
Tax effect of:			
Utilization of provincial research and development tax incentives	(2,525)	(1,655)	(2,900)
Foreign jurisdictions	(15,432)	—	—
Other	95	(136)	222
Income tax expense	$ 67,087	$ 24,105	$ 11,442

Canadian income taxes were not provided for on undistributed earnings for certain non-Canadian subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside Canada.

Income taxes of $13.9 million were paid during fiscal 1998 (1997 – $3.0 million; 1996 – $2.4 million).

10. Segmented Information

The Company is considered to operate in one industry segment, that being the design, manufacture and sale of graphics and multimedia products for personal computers and consumer electronic devices.

The location of the selling organization and the location of assets determine the geographic areas. The following information relates to geographic segments of the Company:

	1998	1997
Sales:		
North America	$ 923,545	$ 562,679
Europe	383,882	162,060
Asia-Pacific	390,240	—
Geographic transfers	(540,746)	(121,900)
Consolidated sales	$ 1,156,921	$ 602,839

	1998	1997
Operating income:		
North America	$ 141,204	$ 63,843
Europe	66,966	4,600
Asia-Pacific	21,588	—
Consolidated income from operations	$ 229,758	$ 68,443
Net identifiable assets:		
North America	$ 463,830	$ 253,349
Europe	64,738	38,386
Asia-Pacific	68,640	—
Consolidated total assets	$ 597,208	$ 291,735

The North American geographic segment includes sales primarily to customers in Canada and the United States, as well as sales to the Asia-Pacific region prior to March 1, 1998, the date of commencement of the Asia-Pacific operations. The European geographic segment includes sales primarily to customers in Europe. The Asia-Pacific geographic segment includes sales primarily to the Asia-Pacific region after March 1, 1998. Geographic transfers represent primarily sales from the North American manufacturing facility to the European and Asia-Pacific segments and sales from the Asia-Pacific segment to the North American segment. Intercompany sales are recorded at cost plus an appropriate profit margin.

Export sales from operations in Canada, excluding geographic transfers, were $490 million in fiscal 1998 (1997 – $399 million; 1996 – $434 million).

At August 31, 1998, one customer accounted for 12% of the consolidated accounts receivable balance (1997 – one customer accounted for 11% of the consolidated accounts receivable balance). No single customer constitutes 10% or more of the Company's consolidated sales in fiscal 1998, 1997 and 1996.

Comparative segmented information for 1996 is not shown because European and Asia-Pacific segments were insignificant.

11. Commitments

The Company is committed to the following minimum payments related to office premises, and license and royalty agreements:

1999	$ 10,250
2000	6,038
2001	2,059
2002	789
2003	635
2004 and thereafter	2,162

12. Contingencies

Cirrus Logic Inc. (Cirrus Logic) filed a complaint on July 1, 1998 with the U.S. International Trade Commission against the Company. On July 8, 1998, Cirrus Logic also filed a companion complaint in the United States District Court, Northern District of California. Both complaints allege that the Company's sales in the United States of graphics display controllers and products containing those controllers infringe a United States patent. Cirrus Logic has requested an injunction to cease the sale of the Company's graphic display controllers into the United States. Cirrus Logic has also made a claim for an unspecified amount of damages. The Company believes it has meritorious defenses to these claims. The Company has filed a response to both complaints and intends to defend this action vigorously. Because the outcome of the action is not certain at this time, no provision for any liability that may result has been made in these consolidated financial statements.

The industry in which the Company operates is characterized by increasingly frequent licensing demands and litigation regarding patent and other intellectual property rights. The Company is involved in various matters of this nature, in addition to the Cirrus Logic complaint. Although the ultimate outcome of these matters is not presently determinable, at this point in time management believes that the resolution of all such pending matters will not have a material adverse effect on the Company's financial position or results of operations.

13. United States Accounting Principles

The following table reconciles the net income as reported on the consolidated statement of operations prepared in accordance with Canadian GAAP to the consolidated net income that would have been reported had the financial statements been prepared in accordance with U.S. GAAP:

	1998	1997	1996
Net income in accordance with Canadian GAAP	$ 168,424	$ 47,689	$ 27,347
Adjustment to deferred income taxes (note a)	112	(160)	(2,000)
Effect of deferral accounting related to foreign exchange contracts (note b)	(1,250)	(210)	—
Net income in accordance with U.S. GAAP	$ 167,286	$ 47,319	$ 25,347
Basic net income per share (note c)	$ 0.85	$ 0.25	$ 0.13
Diluted net income per share (note c)	$ 0.81	$ 0.24	$ 0.13
Weighted average number of shares (000's):			
Basic	196,479	191,573	189,577
Diluted	207,653	197,051	190,980

(a) Under Canadian GAAP, income taxes are computed based on accounting income using the deferral method. Under U.S. GAAP, Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109, "Accounting For Income Taxes" (SFAS 109), companies must adopt an asset and liability approach to account for income taxes.

The following is a summary of the components of the deferred tax liability amount calculated in accordance with U.S. GAAP:

	1998	1997	1996
Tax depreciation in excess of accounting depreciation	$ 6,427	$ 3,360	$ 2,430
Investment tax credits taxable in future years	4,040	4,040	3,330
Share issue costs deductible for tax purposes in future years	—	(410)	(810)
Accounting provisions not deductible for tax purposes	(2,319)	(2,070)	(1,250)
Other	—	(160)	(300)
Total	$ 8,148	$ 4,760	$ 3,400

The following is a summary of the components of the deferred tax expense amount calculated in accordance with U.S. GAAP:

	1998	1997	1996
Tax depreciation in excess of accounting depreciation	$ 3,067	$ 930	$ 610
Investment tax credits taxable in future years	—	710	480
Share issue costs deducted for tax purposes during the year	410	400	430
Accounting provisions not deductible for tax purposes	(249)	(820)	(400)
Tax losses utilized during the year	—	—	1,480
Other	160	140	—
Total	$ 3,388	$ 1,360	$ 2,600

(b) Under Canadian GAAP, unrealized and realized gains and losses on foreign currency translations identified as hedges may be deferred as long as there is reasonable assurance that the hedge will be effective. Under U.S. GAAP, deferral is allowed only on foreign currency transactions intended to hedge identifiable firm foreign currency commitments.

(c) The Company implemented Financial Accounting Standards Board Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128) in fiscal 1998, regarding earnings per share for purposes of the reconciliation to U.S. GAAP. Under U.S. GAAP, basic earnings per share is calculated in a similar manner to Canadian GAAP. Under U.S. GAAP, diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common share and dilutive common share equivalents. The comparative figures have been restated to conform to the adopted accounting method and presentation.

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computations under U.S. GAAP as required by SFAS 128:

	1998	1997	1996
Numerator for basic and diluted net income per share:			
Net income in accordance with U.S. GAAP	$ 167,286	$ 47,319	$ 25,347
Denominator for basic net income per share:			
Weighted average number of shares	196,479	191,573	189,577
Basic net income per share – U.S. GAAP	$ 0.85	$ 0.25	$ 0.13
Denominator for diluted net income per share:			
Weighted average number of shares	196,479	191,573	189,577
Stock options	11,174	5,478	1,403
Shares used in computing diluted net income per share	207,653	197,051	190,980
Diluted net income per share – U.S. GAAP	$ 0.81	$ 0.24	$ 0.13

(d) Additional disclosures as required in accordance with U.S. GAAP are as follows:

(i) As at August 31, 1998, the consolidated accounts receivable provision for returns and doubtful accounts was approximately $6.4 million (1997 – $165,000).

(ii) As at August 31, 1998, the consolidated accrued liabilities balance includes $15.4 million (1997 – $4.1 million) for accrued sales rebates.

(e) The Company accounts for its share options under Canadian GAAP, which, in the Company's circumstances are not materially different from the amounts that would be determined under the provisions of the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Accordingly, no compensation expense for its share option plan has been recognized or recorded in the consolidated statements of operations for the years ended August 31, 1998, 1997 and 1996. Had compensation expense for the Company's share option plans been determined based on the fair value at the grant dates for awards under the Plan consistent with the method prescribed under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company's net income and income per share would have been reported as the pro-forma amounts indicated in the table below:

	1998	1997	1996
Net income in accordance with U.S. GAAP as reported above	$ 167,286	$ 47,319	$ 25,347
Pro-forma adjustment for SFAS 123	(4,100)	(2,300)	(1,650)
Pro-forma net income	$ 163,186	$ 45,019	$ 23,697
Pro-forma basic net income per share	$ 0.83	$ 0.23	$ 0.12
Pro-forma diluted net income per share	$ 0.79	$ 0.23	$ 0.12

The weighted average estimated fair value at the date of the grant, as defined by SFAS 123, for options granted in fiscal 1998, 1997 and 1996 was $3.66, $1.06, and $0.51 per share option, respectively.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes fair value option pricing model with the following assumptions:

	1998	1997	1996
Risk-free interest rate	5.0%	3.5%	5.0%
Dividend yield	0.0%	0.0%	0.0%
Volatility factor of the expected market price of the Company's common shares	40%	30%	30%
Weighted average expected life of the options	2.5 years	2.4 years	2.3 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected price volatility. Because the Company's employee share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee share options.

For the purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

(f) Recent United States Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The impact of adopting SFAS 130, which is effective for the Company's 1999 fiscal year, is not expected to have a significant impact.

In June 1997, the Financial Accounting Standards Board issued Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 requires publicly-held companies to report financial and other information about key revenue-producing segments of the entity for which such information is available and is utilized by the chief operating decision maker. Specific information to be reported for individual segments includes profit or loss, certain revenue and expense items and total assets. A reconciliation of segment financial information to amounts reported in the financial statements would be provided. SFAS 131 is effective for the Company's 1999 fiscal year and the impact of adoption has not been determined.

In June 1998, the Financial Accounting Standards Board issued Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133 will be effective for the Company's 2000 annual consolidated financial statements. The Company continues to evaluate the impact of this new requirement.

14. Subsequent Event

On October 21, 1998, the Company entered into an agreement to acquire Chromatic Research, Inc. (Chromatic) for a total investment of approximately US$67 million, comprised of 100% of the outstanding shares of Chromatic and assumption of Chromatic's net liabilities. The acquisition will be accounted for using the purchase method. The allocation of the purchase price to identifiable net assets has not yet been determined.

15. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems whch use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

16. Reclassification

Certain 1997 and 1996 figures have been reclassified to conform with 1998 presentation.

Five-Year Historical Review

Thousands of Canadian dollars, except per share amounts and other statistics	Years ended August 31 1998	1997	1996	1995	1994
Operating Results					
Sales	$ 1,156,921	$ 602,839	$ 466,598	$ 359,732	$ 232,280
Gross margin	427,990	193,686	122,899	84,233	47,246
Net income	168,424	47,689	27,347	15,868	(2,691)
Operating cash flow	34,650	28,534	61,503	19,262	(54,935)
Financial Position					
Cash*	$ 68,900	$ 71,763	$ 73,855	$ 30,845	$ 29,275
Total assets	597,208	291,735	208,484	178,605	146,700
Bank indebtedness	—	—	10,270	12,425	23,734
Shareholders' equity	389,309	206,000	148,149	119,301	103,303
Working capital	297,678	152,435	111,470	92,655	75,960
Per Share Data					
Net income per share					
Basic	$ 0.86	$ 0.25	$ 0.15	$ 0.09	$ (0.02)
Fully diluted	$ 0.79	$ 0.24	$ 0.14	$ 0.09	$ (0.02)
Market price					
High	$ 19.65	$ 5.83	$ 3.21	$ 2.72	$ 4.97
Low	$ 6.04	$ 2.70	$ 2.19	$ 1.14	$ 1.25
Close	$ 16.65	$ 5.83	$ 2.75	$ 2.25	$ 1.28
Other					
Total number of employees	1,477	1,074	757	669	594
Number of employees in R&D	634	473	303	251	204
Shares outstanding					
End of year	199,174,293	193,998,148	189,984,740	189,080,000	189,000,000
Weighted average	196,478,550	191,573,328	189,576,980	189,028,668	184,166,668

*Cash is defined as cash, cash equivalents and short-term investments.

Quarterly Information

Thousands of Canadian dollars, except per share amounts (unaudited)	November 30 1997	November 30 1996	February 28 1998	February 28 1997	May 31 1998	May 31 1997	August 31 1998	August 31 1997
Sales	$263,353	$164,068	$285,528	$151,460	$286,784	$135,050	$321,256	$152,261
Cost of goods sold	167,414	116,427	177,227	105,267	181,076	89,601	203,214	97,858
Gross margin	95,939	47,641	108,301	46,193	105,708	45,449	118,042	54,403
Expenses								
Selling and marketing	20,563	13,203	25,822	13,781	25,979	13,949	29,047	18,003
Research and development	13,950	9,436	16,040	10,251	17,154	11,038	19,430	13,734
Administrative	6,554	4,831	6,727	5,035	7,599	5,357	9,367	6,625
	41,067	27,470	48,589	29,067	50,732	30,344	57,844	38,362
Income from operations	54,872	20,171	59,712	17,126	54,976	15,105	60,198	16,041
Interest and other income/(loss)	891	(73)	1,649	1,953	1,255	1,014	2,113	839
Interest expense	(16)	(18)	(25)	(202)	(49)	(158)	(65)	(4)
Income before income taxes	55,747	20,080	61,336	18,877	56,182	15,961	62,246	16,876
Income taxes	17,282	7,028	19,014	6,418	14,607	5,427	16,184	5,232
Net Income	$ 38,465	$ 13,052	$ 42,322	$ 12,459	$ 41,575	$ 10,534	$ 46,062	$ 11,644
Net Income Per Share								
Basic	$0.20	$0.07	$0.22	$0.07	$0.21	$0.05	$0.23	$0.06
Fully diluted	$0.18	$0.07	$0.20	$0.06	$0.20	$0.05	$0.21	$0.06
Retained Earnings, beginning of period	$ 96,249	$ 48,560	$134,714	$ 61,612	$177,036	$ 74,071	$218,611	$ 84,605
Net income for the period	38,465	13,052	42,322	12,459	41,575	10,534	46,062	11,644
Retained Earnings, end of period	$134,714	$ 61,612	$177,036	$ 74,071	$218,611	$ 84,605	$264,673	$ 96,249

Corporate Governance

The Toronto Stock Exchange (the TSE) has guidelines for effective corporate governance (the TSE Guidelines) addressing matters such as the constitution of and functions to be performed by the Board of Directors and its committees. The TSE requires that each listed corporation disclose its approach to corporate governance with reference to these guidelines on an annual basis.

Board Mandate

The Company's Board of Directors is ultimately responsible for supervising the management of the business and affairs of the Company and to act in the best interests of the Company. The Board of Directors discharges its responsibility directly and through the Audit Committee and Compensation Committee. The Board of Directors meets regularly to review the business operations and financial results of the Company. Meetings of the Board of Directors include regular meetings with management to discuss specific aspects of the operations of the Company. There were five meetings of the Board of Directors held during fiscal 1998.

Specific responsibilities of the Board of Directors include:

1. Reviewing and approving the Company's strategic and operating plans;
2. Reviewing and approving the Company's capital expenditure policy as well as those expenditures which exceed the limits for management approval;
3. Reviewing and approving significant operational and financial matters and providing direction to management on these matters;
4. Reviewing and approving corporate objectives and goals applicable to the senior management personnel of the Company; and
5. Involvement in the hiring and replacement of the senior management of the Company.

Board Composition

At the start of fiscal 1998 the Board of Directors was composed of five members of which two were outside and "unrelated" directors within the meaning of the TSE Guidelines.

An "unrelated" director, under the TSE Guidelines, is a director who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests and relationships arising from shareholding. Applying that definition rigorously to fiscal 1998, the Company had two unrelated directors for all of fiscal 1998. Currently, the two unrelated directors are Mr. Horn and Mr. Fleck. Mr. Fox is an outside director but not unrelated as a result of the continuing legal services he provides to the Company.

The Company believes that the investments of minority shareholders in the Company is fairly reflected in the composition of the Board of Directors since two of the five directors during all of fiscal 1998 were unrelated.

The Board does not have a Chairman separate from management. When required, the Board of Directors functions independent of management by referring matters to an independent committee having a majority of members who are unrelated directors and by holding meetings without management present.

Board Committees

For all of fiscal 1998, each of the Audit Committee and the Compensation Committee were composed of three outside directors of which two were unrelated directors, consistent with the TSE Guidelines.

The Audit Committee met four times during the year to review the interim and annual financial statements and to make recommendations to the Board of Directors. When required, the Audit Committee meets directly with the auditors of the Company. The Audit Committee also makes recommendations as to the implementation and operation of internal control and financial reporting systems.

The Compensation Committee is involved with all compensation issues regarding directors and senior management of the Company, including establishing the remuneration of the President and CEO and all senior management who report directly to the President and CEO, reviewing and making recommendations concerning the operation of the Company's Share Option Plan and Stock Purchase Plan and reporting to shareholders concerning executive compensation.

Investor Relations

The Company has an Investor Relations department responsible for liaising with investors and receiving shareholder feedback and comments. The Company believes that in this manner shareholder concerns are dealt with appropriately when they arise.

Other Matters

Although neither a corporate governance committee nor a nominating committee has yet been formed, the Board of Directors and its committees had, and continue to have, responsibility for nominating new directors, assessing the effectiveness of the Board as a whole and the contribution of individual directors, reviewing the adequacy and form of compensation of directors, providing an orientation and education program for new recruits to the Board and approving requests of directors to engage outside advisors at the expense of the Company.

Directors and Officers

Board of Directors

Alan Horn
Vice President, Finance and
Chief Financial Officer,
Rogers Communications Inc.○△

Jim Fleck
Faculty of Management,
University of Toronto○△

K.Y. Ho
President and
Chief Executive Officer,
ATI Technologies Inc.

Lee Lau
Vice President,
Strategic Planning,
ATI Technologies Inc.

Paul Fox
Barrister & Solicitor○△

○ Member of the Audit Committee
△ Member of the Compensation Committee

Corporate Officers

K.Y. Ho
President and
Chief Executive Officer

Adrian Hartog
Vice President, Engineering

Benny Lau
Vice President,
Product Planning

Ed Grondahl
Vice President,
Product Marketing

Henry Quan
Vice President,
Corporate Marketing

Jim Chwartacky
Vice President, Finance and
Administration, CFO

Lee Lau
Vice President,
Strategic Planning

Tom Ward
Vice President,
Distribution Sales

Dean Blain
Corporate Secretary

International Officers

Gerd Queisser
Vice President,
European Operations

Noboru Mayuzumi
Vice President,
Sales & Marketing,
ATI Japan

Patrick Redmond
General Manager,
ATI Ireland

Vincent Win
Vice President, Strategic Sales

Biographies

Jim Fleck
Jim Fleck is a Professor of the Faculty of Management, University of Toronto. Until August 1994, he was Chairman and CEO of Fleck Manufacturing Inc. with plants in Canada, Mexico and the U.S.A. He was Chairman of Alias Research Inc. from 1992 to 1995. He is a director of Promis Systems Corporation, Financial Models Co. Inc. and a number of public and private company boards.

Paul Fox
Paul Fox has operated his legal practice as a sole practitioner since 1992. Prior to that time Mr. Fox was a partner of Smith Lyons, a major law firm in Toronto. Mr. Fox has provided legal services to ATI since 1987.

K.Y. Ho
K.Y. Ho is one of the founders of ATI. Mr. Ho, an Electrical Engineer, has more than twenty years experience in the management, engineering, manufacturing and material and quality control areas of the computer industry. Mr. Ho previously worked at several leading computer manufacturers in Hong Kong.

Alan Horn, C.A.
Alan Horn became a director of ATI in November 1993. He is Vice President, Finance and Chief Financial Officer of Rogers Communications Inc. A Chartered Accountant, who was previously a tax partner with KPMG, Mr. Horn also serves on a number of public and private company boards.

Lee Lau
Lee Lau is one of the founders of ATI. Mr. Lau is a Professional Engineer who has worked in the computer industry for over 13 years. Prior to ATI, Mr. Lau held the position of Design Engineer with Mitel and ESE Systems.

Corporate Information

All Inquiries for Financial Information Should be Directed to:

ATI Technologies Inc.
Investor Relations
33 Commerce Valley Drive East
Thornhill, Ontario
Canada L3T 7N6
Telephone: (905) 882-2600 ext. 8306 Facsimile: (905) 882-2620
FaxInfo: (905) 882-2600 (prompt #2) Web site: www.atitech.com

United States Regional Sales and Distribution Office:

ATI Technologies System Corporation
631 River Oaks Parkway
San Jose, California
U.S.A. 95134
Telephone: (408) 434-9888
Facsimile: (408) 434-0818

Europe and Asia-Pacific Sales and Distribution Offices:

ATI Technologies (Europe) GmbH
Keltenring 13
D-82041 Oberhaching, Germany
Telephone: +49 89 665-15-0
Facsimile: +49 89 665-15-230

ATI Technologies (Europe) Limited
Swords Business Park, Swords Co.
Dublin, Ireland
Telephone: +353-1-807-7800
Facsimile: +353-1-807-7820

ATI Technologies (Japan) Inc.
Pinex Kojimachi Bld. 3F
4-4-3, Kojimachi, Chiyoda-ku
Tokyo 102, Japan
Telephone: +81-3-5275-2241
Facsimile: +81-3-5275-2242

ATI Technologies (L) Inc.
Hong Kong Branch
Units 1516-20, 15/F
Nan Fung Commercial Centre
19 Lam Lok Street, Kowloon Bay
Kowloon, Hong Kong
Telephone: +852-2163-7500
Facsimile: +852-2795-2238

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Thursday, January 14, 1999 at 2:00 p.m. at the Design Exchange, located at 234 Bay Street, Toronto-Dominion Centre, Toronto, Ontario M5K 1B2. All shareholders and others interested in the Company are invited to attend.

Listing of Common Shares

The common shares of the Company are listed on The Toronto Stock Exchange under the stock symbol "ATY" and The Nasdaq Stock Market under the symbol "ATYTF".

Auditors

KPMG LLP
Chartered Accountants
Suite 3300, Commerce Court West
P.O. Box 31, Station Commerce Court
Toronto, Ontario
Canada M5L 1B2

Bankers

Hongkong Bank of Canada
1940 Eglinton Avenue East
Scarborough, Ontario
Canada M1L 4R2

Transfer Agent and Registrar

CIBC Mellon Trust Company
320 Bay Street, 6th Floor
Toronto, Ontario
Canada M5H 4A6
1-800-387-0825
416 643-5500

Legal Counsel

Smith Lyons
Barristers and Solicitors
Scotia Plaza, Suite 5800
40 King St. West
Toronto, Ontario
Canada M5H 3Z7

Paul D. Fox
6749, Concession 6
R.R. #1, Uxbridge, Ontario
Canada L9P 1R1

ATI Technologies Inc.
33 Commerce Valley Drive East
Thornhill, Ontario Canada L3T 7N6
Telephone: (905) 882-2600
Facsimile: (905) 882-2620
Worldwide Web: http://www.atitech.com

Printed in Canada . P/N 1970000240